34th Annual Survey of Distributor Operations...

'79 sales up 14%; profits steady

It was supposed to be a year with a business downturn but, according to respondents to the survey, that prediction didn't come true. The outlook for '80? No dramatic changes in sales goals and a stronger push to maintain profitability.

Despite threats of recession throughout the year, distributors managed to post respectable sales gains in 1979.

Total average sales, general line distributors and specialists combined, were up 14% for the respondents to *ID's 34th Annual Survey of Distributor Operations*.

Overall, the results of the poll indicate that 1979 as a business year was without radical shifts or downturns despite many predictions of imminent economic stiffening and significant pressures on the nation's economy.

For example, the prime rate exceeded 15% late in the year, prompting many to predict that receivables would become badly stretched. That does not appear to have been the case, however.

General liners' year-end receivables median value was $239,286, up 2.2%, with median days outstanding at 45.5, up half a day.

Specialists were somewhat more troubled by receivables. Median value at year's end was $232,447, up 10.4% in dollars but only 3.5% higher, to 48.7, in average days outstanding.

Gross profit steady

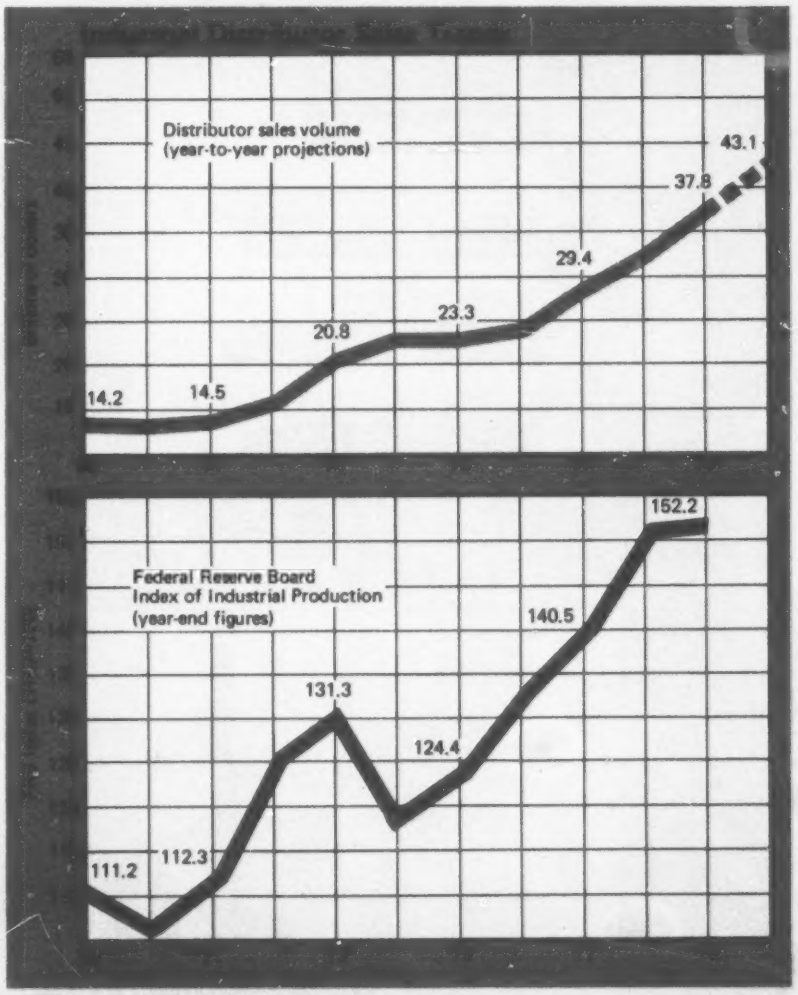
Also encouraging are figures on respondents' gross profits. Figured as a percentage of total sales, this measure was generally steady (see graph on page 49).

General line respondents even showed a 1979 improvement in net profit after tax, from a median of 2.6% to 3.4%, while specialists, at 2.6%, rose 0.1%.

Part of the reason for improvements in profitability can be traced to an apparent hold on operating expenses, shown on page 50 as a percentage of total sales. For general liners in 1979, that figure stood at a median of 17.4%, down 1.6%. Specialists were lower at 15.6%.

One good reason to hold down operating expenses is the certainty of continually increasing prices.

While respondents' predictions for sales in 1980 work out to an average of 14%—13% for general liners and 15% for specialists—



The year at a glance

- **Gross profit:** general line up, specialists steady
- **Operating costs:** general line lower, specialists lower
- **Before-tax net:** general line down, specialists down
- **PPR:** general line steady, specialists improve
- **Collections:** general line steady, specialists higher

distributors foresee no relief from producer-price hikes.

While the respondents' forecast for 1980 sales is optimistic in the aggregate, a closer look at the regional breakdown (see below) shows that expectations vary.

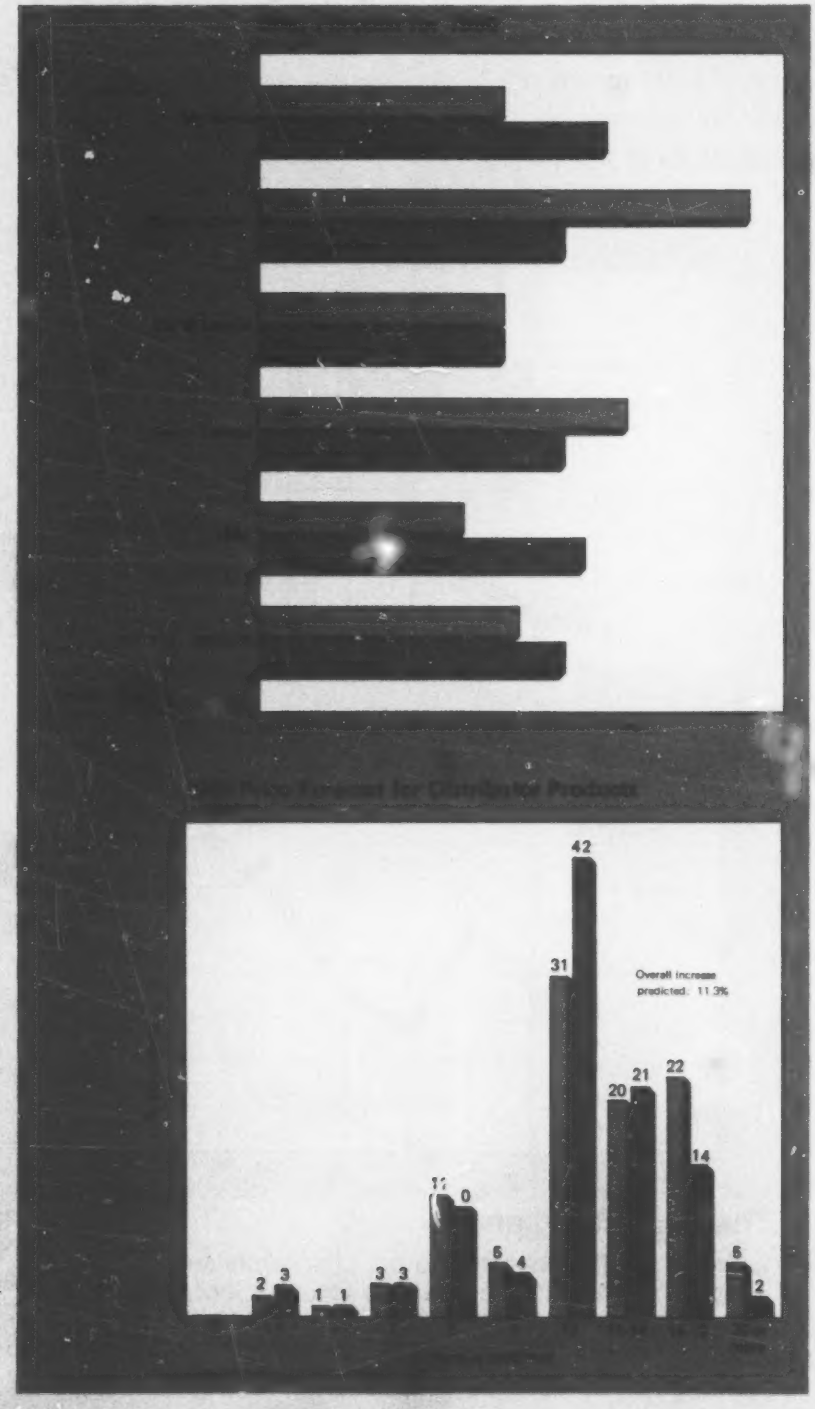
For instance, Northeast general liners see a 12% increase, while the specialists in the same region see a rise of 17%. Reversing that split, South Atlantic general liners posted an overall average of 24%, while specialists there saw only 15% growth.

Also, regional predictions for growth in 1980 tend to follow patterns of increased sales during 1979. The Northeast had an average rise in sales of 12.6%; South Atlantic, 23%; North Central, 11.8%; South Central, 19.7%; West, 13.7%.

Another indication that respondents enjoyed a good business year in 1979 comes from the figures for return on investment.

The median ROI for general liners was 16.1%, up 3.2%, while the median for specialists' ROI stood at 16.4%, up 0.4%.

At the same time, median figures for net profit before tax dropped somewhat: to 4.1% from 5.3% for general liners and to 3.7% from 6.1% for specialists.



Holding the line

Other indications of a push to maintain profitability come in three measures of personnel productivity—sales per employee, gross profit per employee and the personnel productivity ratio. With each measure, respondents either surpassed 1978 marks or at least held close to them.

Increased sales per employee in both general line and specialist categories probably most reflects increased sales. The median 1979 figure for general line respondents was $149,000, up from $119,000. For specialists, the figure was $139,000, up from $121,000.

Gross profit per employee also showed increases: general line, $39,000, up from $34,000; specialist, $39,000, up from $29,000.

With the personnel productivity ratio (PPR), gains were less clear for both specialists and general liners.

The formula is:

$$\frac{\text{Total compensation}}{\text{Gross profit \$}} \times 100$$

The formula was devised by consultant George C. Webster to measure the productivity of distributors and other wholesalers. An acceptable average is 45%, with higher figures a sign of poor productivity.

As shown in the graph at the bottom of page 50, the medians for both 1979 and 1978 indicate that specialists have a distinct edge over general liners in this area. However, it should be noted that one-half of respondents will be over and half under the median in either category.

Personnel pattern

Generally, distributors are unlikely to sharply increase the size of their staffs, except through acquisitions. That is borne out by the respondents' figures (see graph on page 53).

General line respondents had a median of 16.4 employees in 1979—the same as in 1978. Specialists had a median of 16.9, up 0.8. Some increases showed up in the breakdown for outside salesmen, but little for counter and phone work.

Respondents do plan to increase sales personnel this year. For general line, 56% of respondents said they will hire more, 33% of those in inside sales and 50% in outside sales. Specialists predicted similar hirings: 59% plan to do so, with 34% looking for inside salesmen and 51% interested in more outside help.

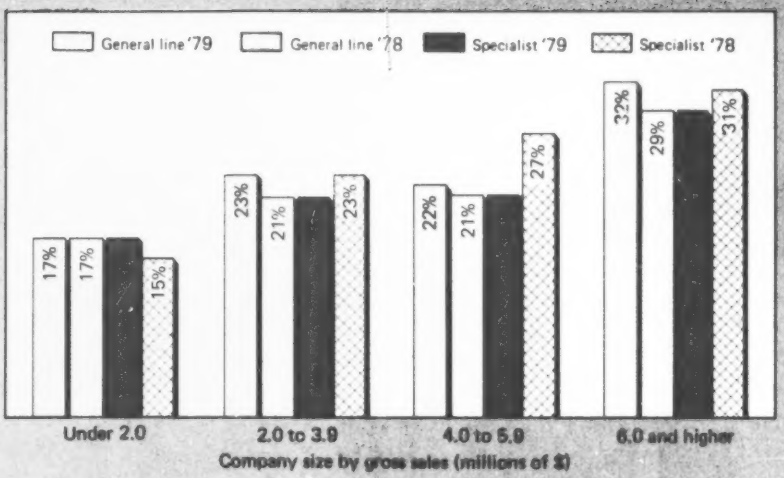
Regionally, the South Atlantic has the highest median for number of employees,

Profit & Loss

How did the profit picture look in 1979? Not too bad, according to our respondents. Gross profit bounced around across size categories, as it always does. But averaging median levels indicates that there was actually little change from 1978 levels. For instance, the average of general line medians in all four size categories for general line in 1979 was 23.5%, up 1.5%. The specialist average was 22%, down 2%. For after-tax net profit, some overall improvement was shown, particularly for general liners. Return on investment? Slightly improved for both specialists and general liners. The outlook for 1980? It all depends on inflation, the strength of the economy and the amount of effort distributors employ to maintain their profit performance.

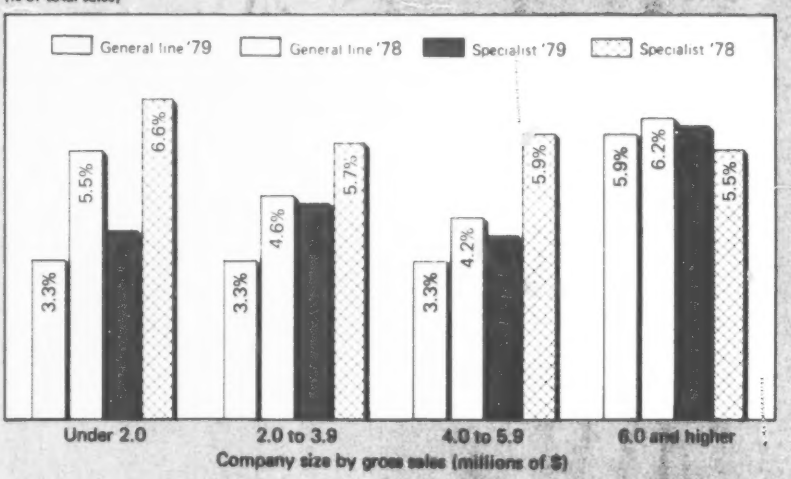
Gross Profit

(% of total sales)



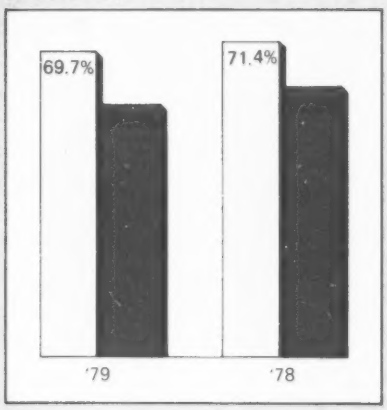
Net Profit Before Tax

(% of total sales)



Sales from Stock

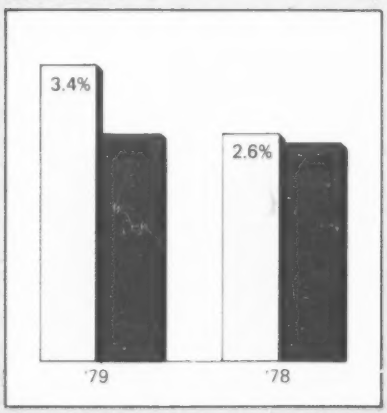
(% of total sales)



General line ☐ Specialist ■

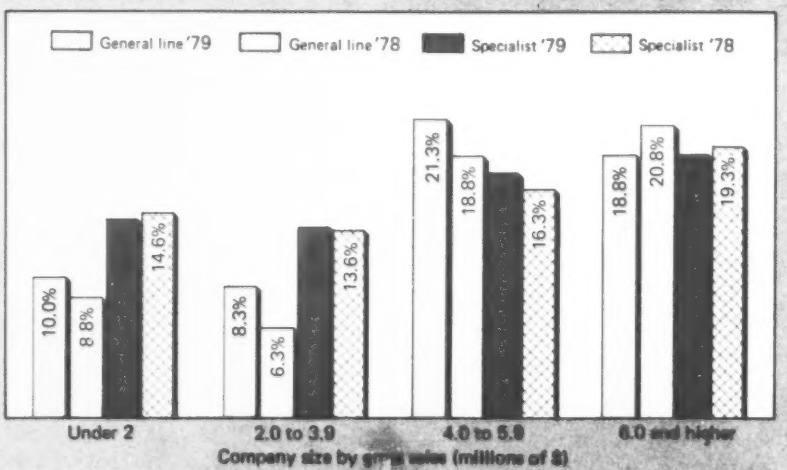
Net Profit After Tax

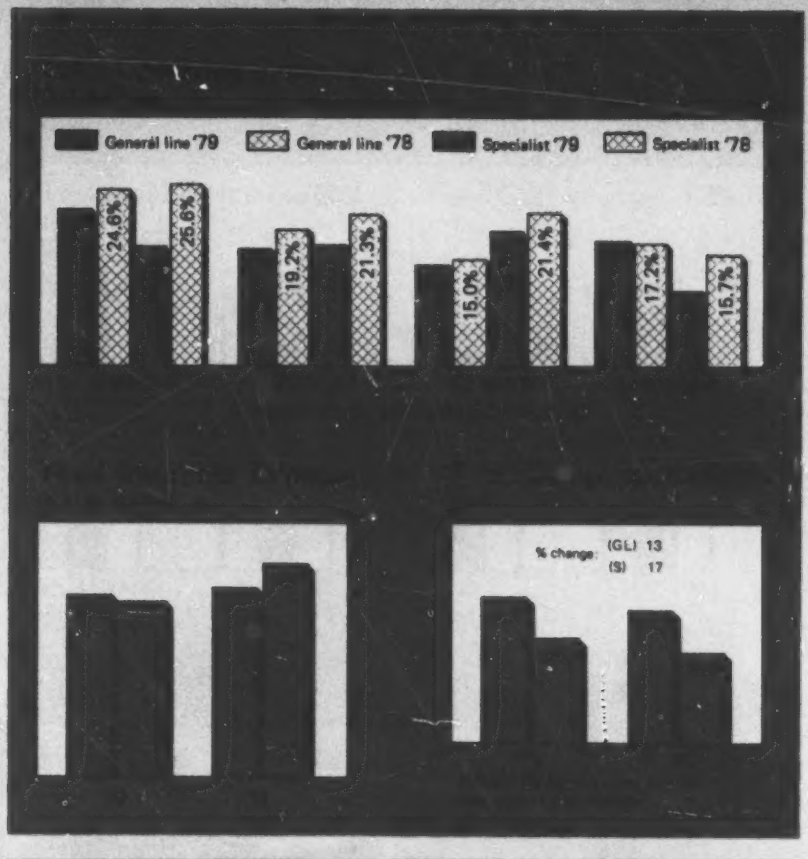
(% of total sales)

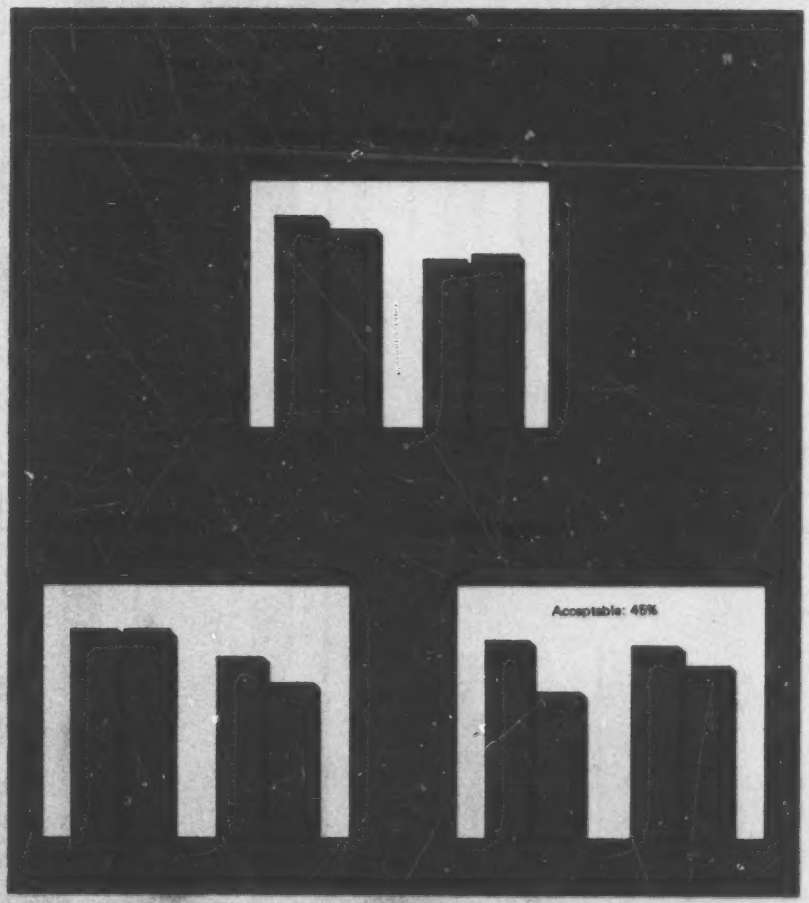


Return on Investment

(return on net worth)







Definitions...

Median: Generally considered to be the best way to prevent distortion in a sample that might otherwise be dominated by large or small companies. For any given performance measure, the numeric values of the range are arrayed from the strongest to the weakest. The figure that falls in the middle of the array is the median. The firms listed above it had stronger performances, the ones below it had weaker. Unless otherwise noted, medians are used in all graphs.

Average: The mean obtained by adding different figures or values together and dividing the sum by the number of quantities. Used in this survey where it has more value than the median or as a comparison point to the median.

General line: Distributorships in which no one major product category—i.e., cutting tools, power tools, bearings—accounts for 50% or more of total sales.

Specialists: Distributorships in which one product category accounts for 50% or more of total sales.

24, followed by South Central, 20; West, 16.6; North Central, 16.3; Northeast, 13. The 1979 median for general line firms is 16.6, while that of specialist respondents is slightly higher at 16.9.

Expansion plans

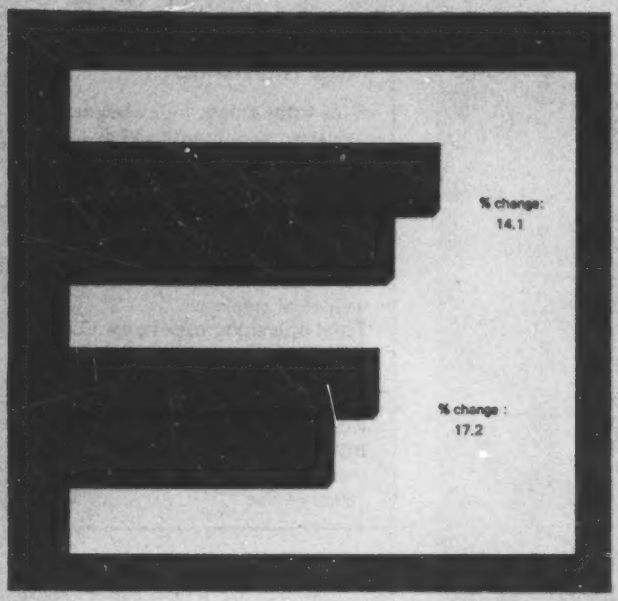
At least with this sample of distributors, the majority of general line and specialist firms follow the industry stereotype on size—single-location houses with no near-term plans for expansion.

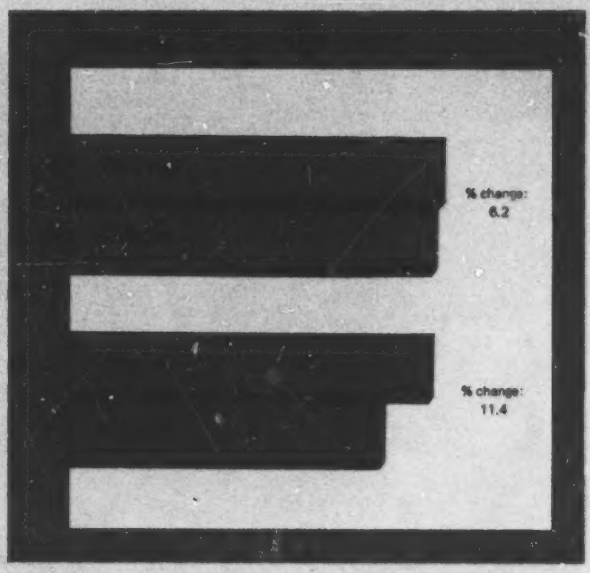
Some 44% of general line respondents have no branches (down from 50% in 1978) and 49% of specialists report the same finding (see graph on page 54).

Only 15% of general liners and 16% of specialists have plans to add branches this year. Moreover, most of growth will come from larger firms. Of general line firms with less than $4 million in sales, only 9.7% plan to open branches, while 31% of firms with sales between $4 million and $6 million plan to do so. For specialists, the breakdown is similar—8.6% and 31%.

Warehouse space, in median sq ft, showed some 1978-to-1979 growth. The general line figure was 14,375, up 6.2%; specialist, 10,481, up 11%. Yet here as well, relatively few respondents plan expansions—20% of general liners and 24% of specialists.

As with inflation, the cost of compensation keeps rising—often faster than overall prices because it is increasingly important





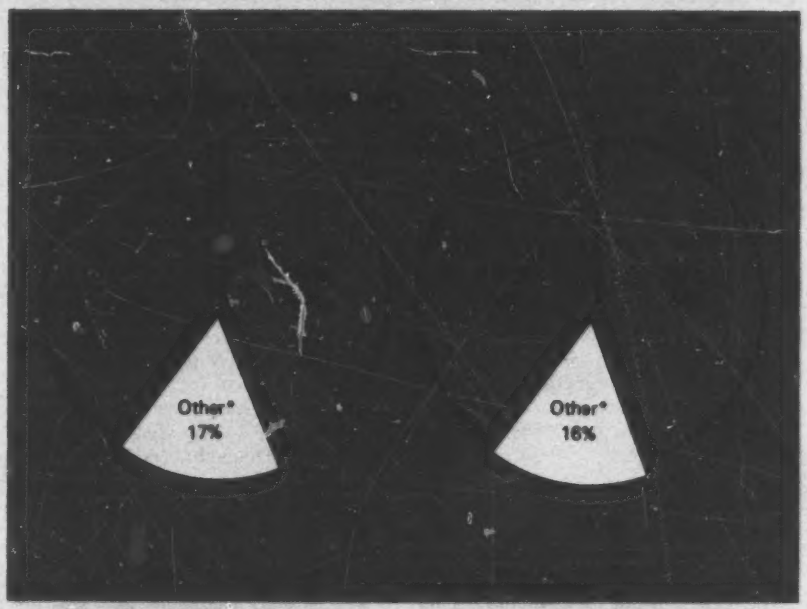
to maintain an experienced staff.

The graph on page 53 shows that the median increase for compensation in 1979 was higher for general liners than for specialists (21% to 16%), but it doesn't show the wide regional variations in median compensation.

- National: $310,000, up 23%.
- Northeast: $312,500, up 20%
- South Atlantic: $400,000, up 25%.
- North Central: $244,643, up 13%.
- South Central: $475,000, up 6%.
- West: $361,111, up 25%.

Insurance expenses stayed fairly even for general line respondents—from a median of 0.71% of total sales in 1978 to 0.68% in 1979. Specialists' median drop was from 0.80% in 1979 to 0.67%.

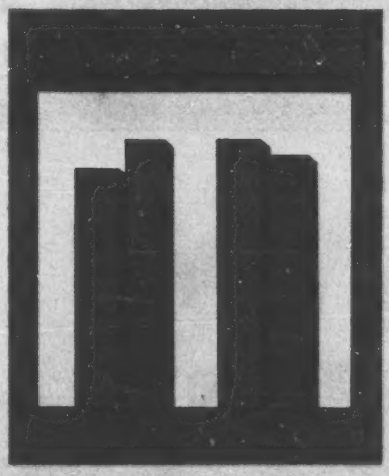
Computer expenses rose for both categories, probably reflecting shifts to use of in-house systems. General line respondents had a median of $45,300 for computer expenses in 1979, up 13%. Specialists spent less in total dollars but more in percentage increase—$33,000, up 17%. (More information on computerization can be found in the graphs on page 55).

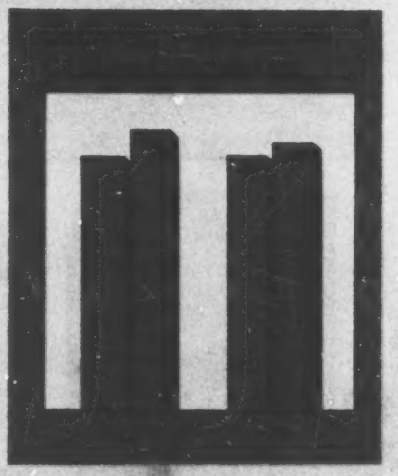


Inventory value up

In keeping with increases in sales during 1979, respondents' inventory values also rose. For general liners, the 1979 median value was $335,000, up 14.1%. For specialists, the median was $232,447, up 17.2% (see graph on page 51). Increases varied, but generally the smaller the company, the larger the median increase.

- Less than $2 million: general line, $155,000, up 24%; specialist, $115,625, up 23%.
- $2 million to $4 million: general line, $437,500, up 17%; specialist, $360,577, up 11%.
- $4 million to $6 million: general line,





Key formulas...

% of total sales: Individual measure (i.e., sales from stock) divided by total sales. Result is multiplied by 100.

Sales per employee: Total sales divided by number of employees.

Gross profit per employee: Gross profit, in dollars, divided by number of employees.

Total operating expenses: Costs of selling, delivery, salaries, warehouse, EDP, insurance, land and building occupancy, general and administrative.

Inventory turnover: Stock sales at cost divided by average monthly inventory value.

$458,331, up 15%; specialist, $562,000, up 17%.

■ More than $6 million: general line, $811,648, up 8%; specialist, $895,000, up 10%.

The accounting methods used to keep track of that inventory showed little shift between the two years, according to the respondents.

FIFO (first in, first out) led with both categories combined, 43.2% in 1979, 43.7% in 1978. LIFO (last in, first out) trailed, with 39.9% of respondents using it in 1979 and 39.7% in 1978. Those using "other" methods—generally described "our own" or, in one case, "NIFO: next in, first out"—came in at 16.9% in 1979 and 16.6% in 1978.

Changing to LIFO

LIFO, generally considered a more accurate method of inventory valuation under inflationary conditions, is more popular with general line respondents than specialists (43.7% to 37.4%).

If LIFO is indeed the stronger of the two accounting methods, how many respondents plan to make the switch?

Overall, 11.5% of respondents said they will be changing over this year. For general line, the figure is 12.3%, with specialists at 10.7%.

Some movement is seen in inventory turns. Using medians, the general line figure was 3.4, down 0.4 from 1978. The specialist median turn rate was 3.8, up 0.2.

Discounts from suppliers are always of interest. But there is little change to report (see graph below).

Expressed as a percentage of gross profit, the median for income earned for discounts by general line respondents was 0.35, down 0.2. The specialists' median was the same for both years, 0.31. Medians across the four categories of company size for both specialist and general line ranged between 0.30% and 0.40%.

A controversial subject for distributors is the cost of product liability insurance and the seemingly capricious jumps in premiums many firms have experienced in the last five years or so.

In a new survey question, *ID* asked what percentage increase respondents received for coverage in 1980.

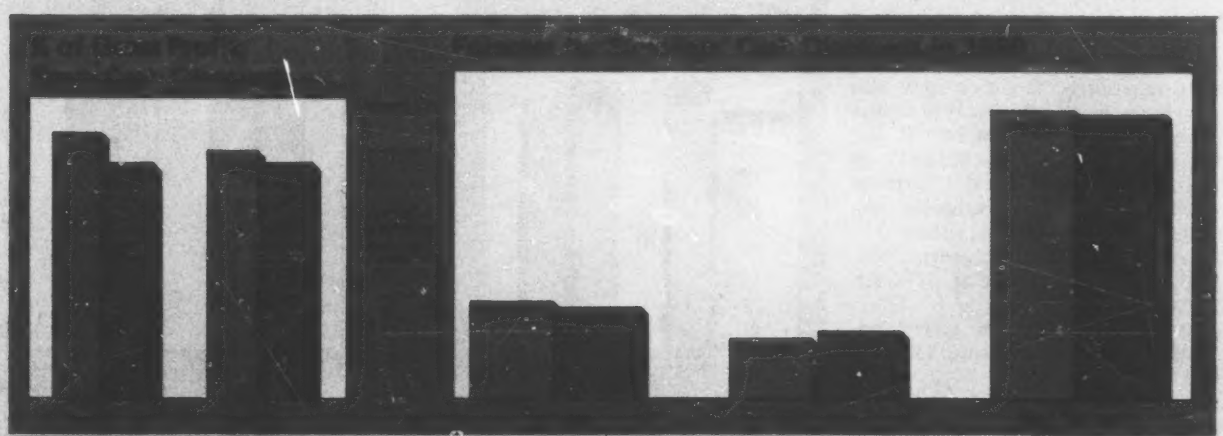
Liability costs

Overall, they reported a median of 13.3%, although the average of their answers came to 34%—largely because of the very high premium adjustments received by the unfortunate few. (One respondent noted that his new rate was 250% higher, although his firm had never been involved in a liability suit). Twenty percent of respondents said they received no increases; 12% saw premiums hiked 100% and more.

Neither specialist nor general line firms seemed to be worse off in this area: Both reported roughly equal median increases, 13.1% and 13.4% respectively.

Traditionally, few distributors have been involved in product liability suits. The results from this sampling bear that out. Of all respondents, only 6.7% had been during 1979. (General liners and specialists were almost exactly equal here: 6.8% and 6.6% respectively).

Of those caught in suits, 27.3% had been penalized, although the figure would un-



doubtedly be higher if the still-pending cases had been adjudicated.

Using EDP

This group of distributors was evenly split on use of a computer—49% did and 51% did not. Size was the key factor.

- Less than $2 million: general line, 33% used EDP; specialist, 27%.
- $2 million to $4 million: general line, 52% used EDP; specialist, 58%.
- $4 million to $6 million: general line, 91% used EDP; specialist, 58%.
- More than $6 million: general line, 90% used EDP; specialist, 92%.

Overall, 69% used in-house systems, up 7% from 1978. Of the noncomputerized respondents, 32% plan to change that status this year. In-house systems are the most popular for those just entering EDP; 86% plan to use them.

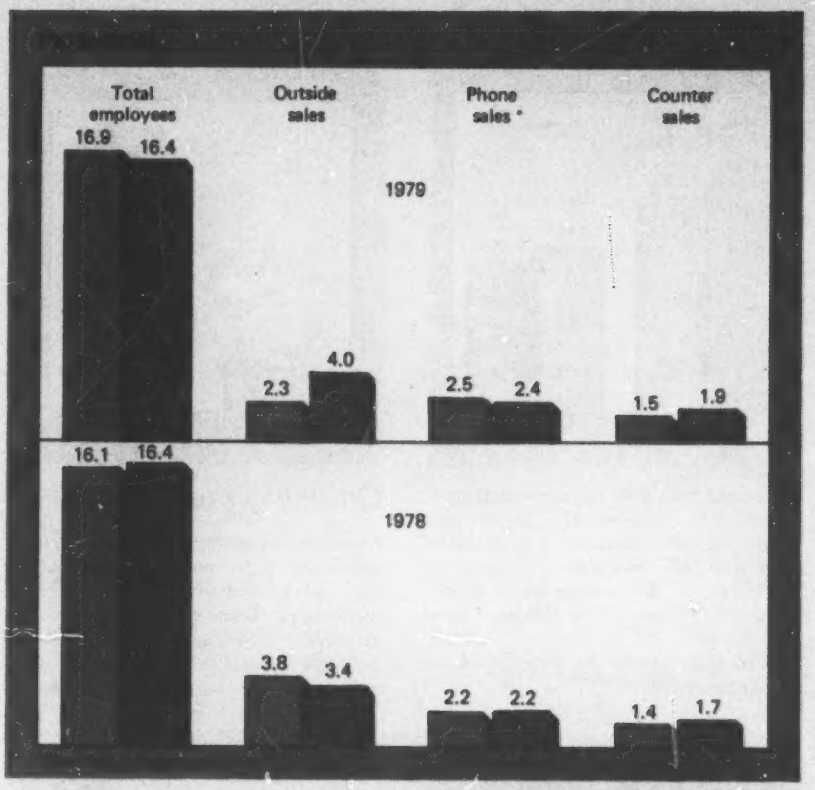
One of the advantages of having an in-house system is the capability it can provide for on-line (direct access, instant response) service. Already using that capability were 48% of the respondents employing EDP in 1979.

While standard numbering (11-digit and item inventory coding) can be employed without EDP, it is most easily made part of distributor operations through use of a computer, preferably on-line and in-house.

Only 8.9% of specialists did use it in 1979, compared to 18.5% of general liners. While standard numbers are often called "NIDA-SIDA numbers," the system was actually developed by the National Assn. of Wholesaler-Distributors, which is currently campaigning for its increased use. The main industrial distributor associations are affiliated with NAW and many are encouraging members to use the system.

Those employing standard numbers now apply it to varying amounts of their inventories (see graph page 56).

Of those who plan to go to standard numbering in the future, general liners again double the specialists' figure—32% to 15%.



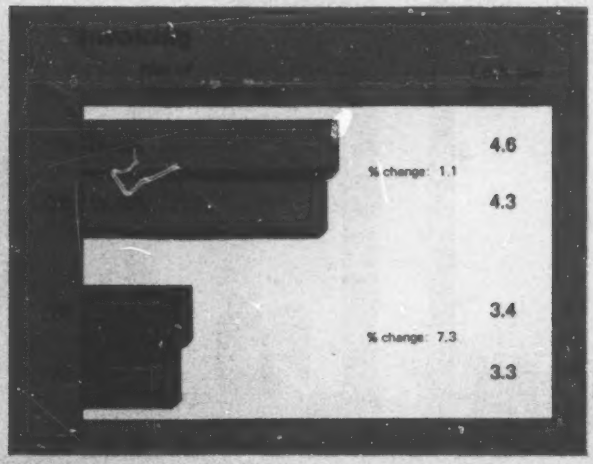
While a large part of the 14% increase in sales cited at the beginning of this report is undeniably the result of inflation, there was some growth.

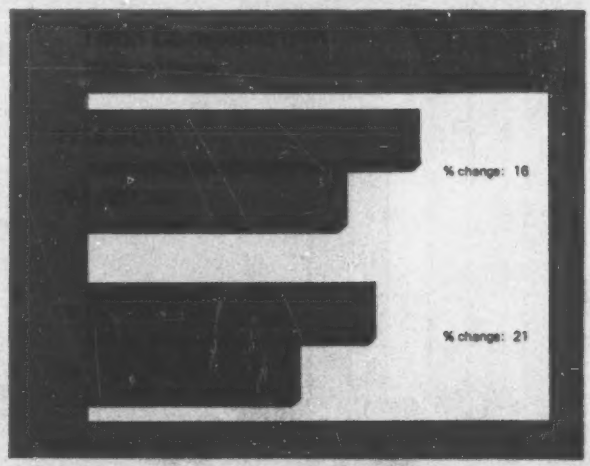
Overall, survey respondents seem to have experienced fairly smooth going in 1979. If it wasn't the best sales year ever, it was certainly not the worst in distribution during the last decade.

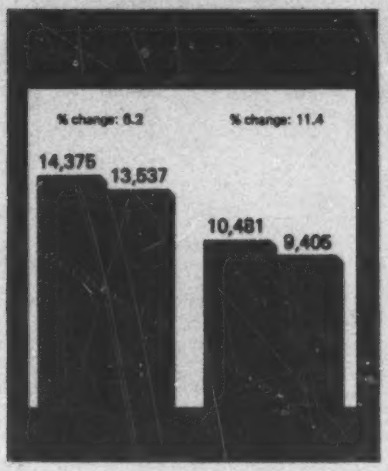
But what about 1980?

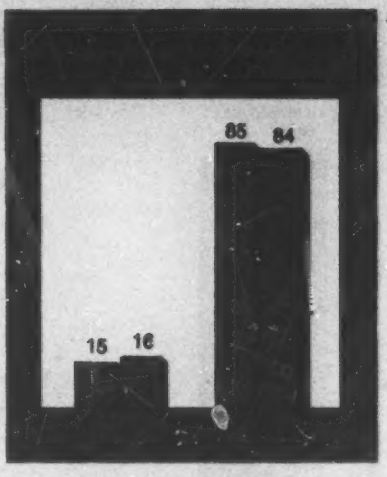
Looking ahead

As mentioned earlier, the combined average projection for sales this year is 14%. But that figure tends to obscure the pessimism of some and optimism of others.









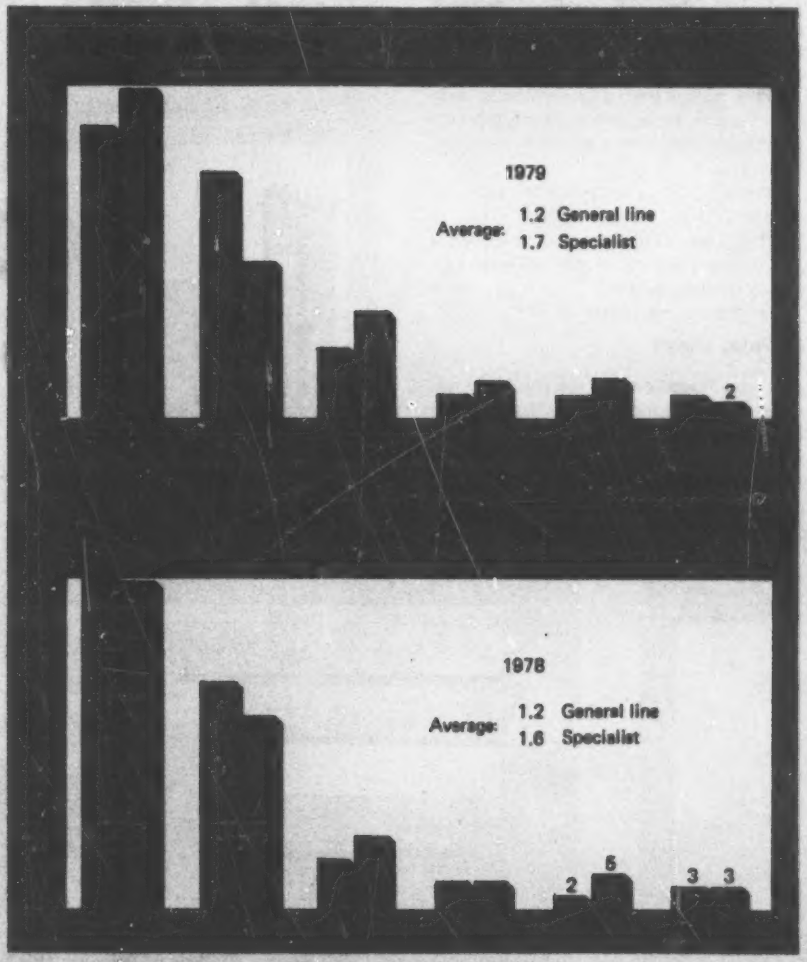
For example, 45% of respondents predicted sales increase of 14% or less. Balancing that, 55% hope for increases of more than 14%—with 24% looking for up to 19% more, 18% looking for up to 24% more and 13% striving for 25% more business this year.

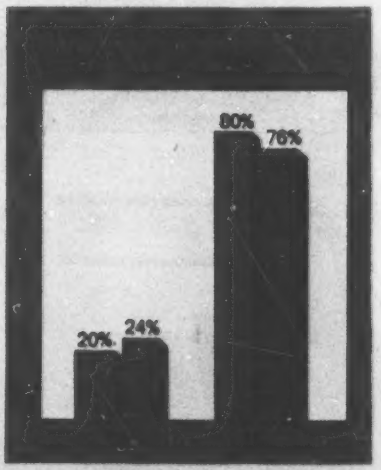
And that has to be considered an optimistic outlook.□

On using the survey...

Through computerized analysis and collection of the mass of information supplied by distributors from all over the country, ID has presented the results in several different formats to enable individual firms to compare their own performance to national and regional norms. Since each year's survey is culled from a different group of respondents, comparisons between one year's report and another should not be made. The industry sales line shown at the start of this report is taken from Census Bureau data on performance during that period in Standard Industrial Classifications 5084, 5085 (sales of industrial supplies and equipment). The remaining data presented in the graphs and tables are from the current group of respondents, whom we asked to provide 1979 and 1978 figures for comparison. The survey results have been presented using both medians and averages, where applicable. It should be noted that the median is a better indicator of an individual distributor's place in relation to others, although the average is useful in determining industrywide placement. Of the general line firms, 44% had sales of less than $2 million; 25%, $2 million to $3 million; 11%, $4 million to $5 million; 20%, more than $6 million. Of the specialists, 45% had sales of less than $2 million; 29%, $2 million to $3.9 million; 11%, $4 million to $5.9 million; 20%, more than $6 million. Fifty-nine percent of respondents classified themselves as specialists. A breakdown of their product categories provides an illustration of the variety of firms operating under the overall classification of industrial distributor.

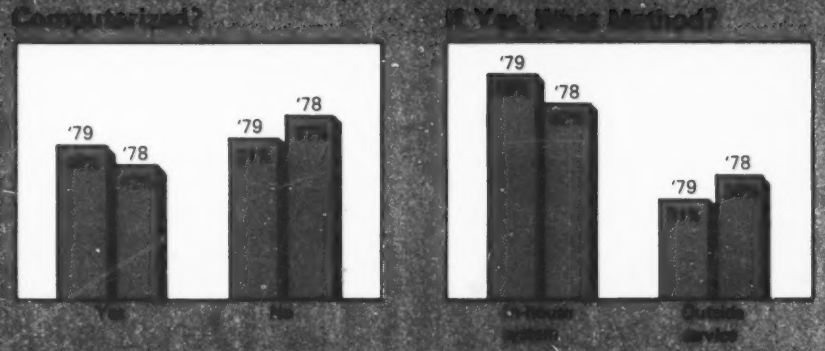
- *Fluid power, 20.5%.*
- *Cutting tools and abrasives, 15.7%.*
- *Material handling, 9.2%.*
- *Pumps and compressors, 9.2%.*
- *Power transmission, 8.6%.*
- *Rubber and hoses, 8.1%.*
- *Fasteners, 8.1%.*
- *Welding, 6.5%.*
- *PVF, 5.4%.*
- *Machine tools, safety, bearings construction and mining, metals, electrical-electronic, contractors' supplies, power tools, MRO items, aluminum, totalled less than 3% each.*

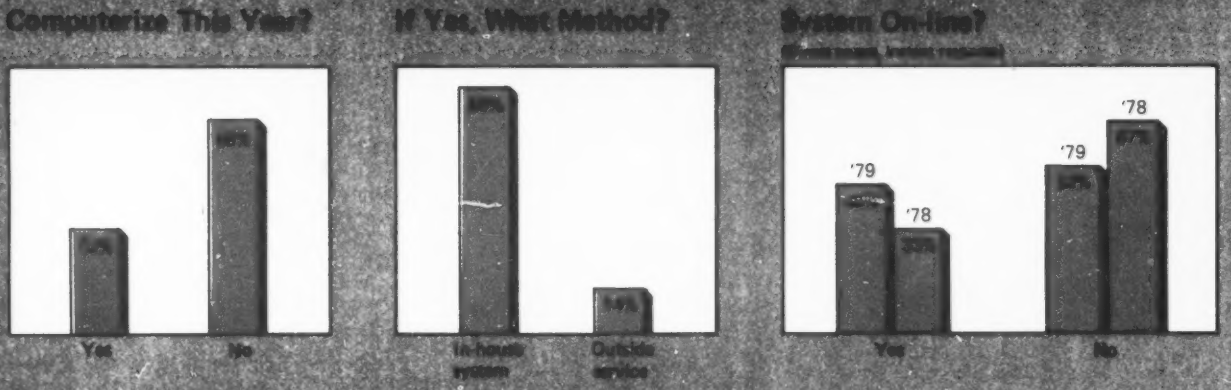


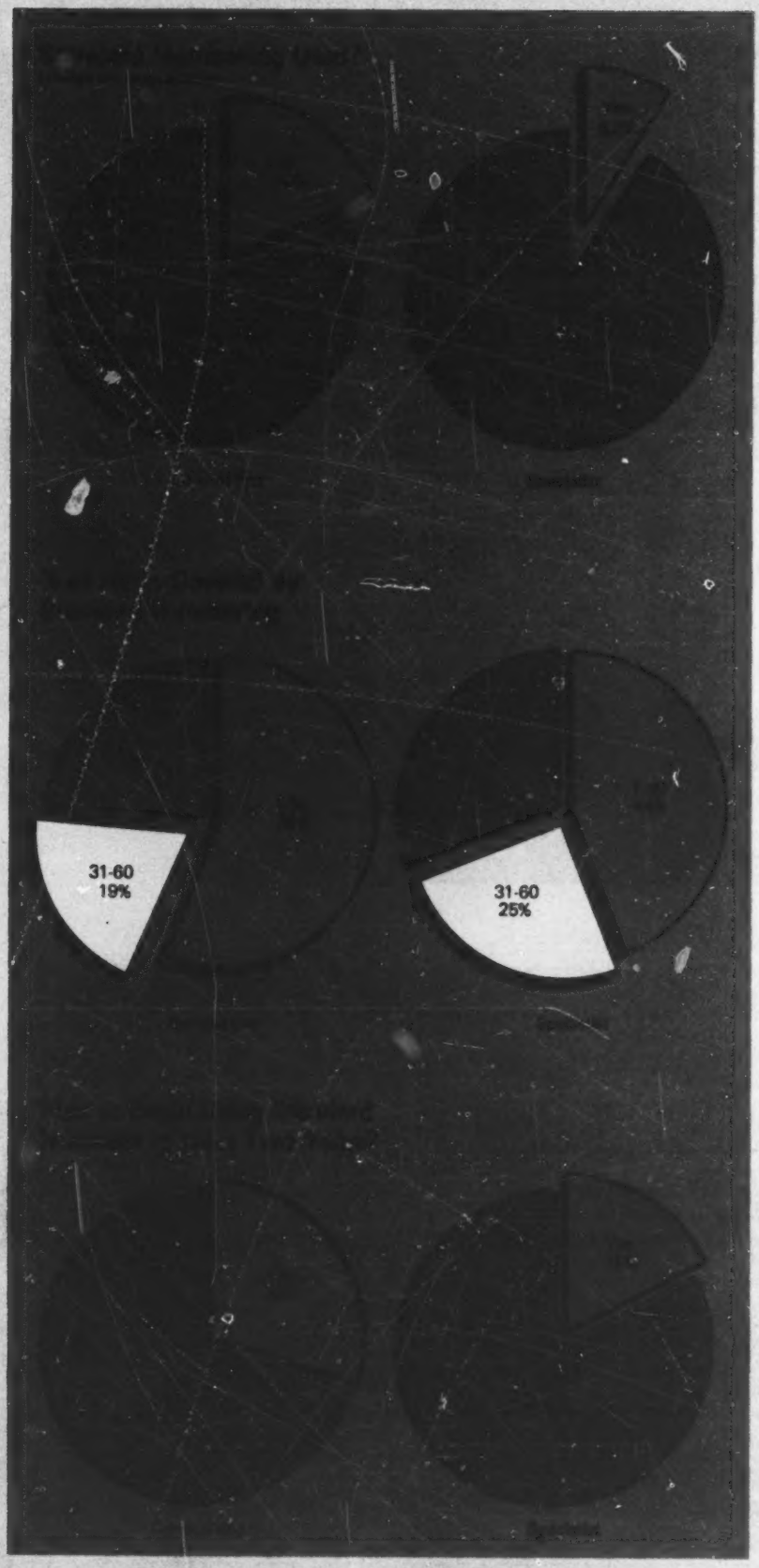


Computer Use

Sooner or later, some contend, the computer will be a standard tool in the operation of every business, large or small. That may be. For the time being, the ranks of those respondents who do and do not use EDP are fairly evenly split. That ratio is likely to change soon, however. Some 32% of the respondents who don't already use computer services plan to change that status this year. The large majority, in fact, plan to work with in-house EDP, which is considered the most sophisticated of the available options.







Performance by region: How does your company compare?

All key reporting and performance data of this report have been collated by region to allow managers and salesmen to compare their firms' figures against the norms for their areas. Note, however, that the separate figures (gross profit, operating expense, net before tax, for example) do not correspond to one another sequentially in the way they would on an income statement. They are each separate figures derived from different numbers of respondents. The regions are purposefully left broad to ensure that the figures presented are representative. Medians are used in most instances to ensure that the information is not imbalanced or distorted by a small sample in any one measure or region.

Respondents by region...

Northeast: 24.1%
South Atlantic: 11.9%
North Central: 33.5%
South Central: 12.2%
West: 18.3%

Northeast
Conn., Maine, Mass., N.H., N.J., N.Y., Pa., R.I., Vt.
South Atlantic
Del., D.C., Fla., Ga., Md., N.C., S.C., Va., W.Va.
North Central
Ill., Ind., Iowa, Kan., Mich., Minn., Mo., Neb., N.Dak., Ohio, S.Dak., Wis.
South Central
Ala., Ark., Ky., La., Miss., Okla., Tenn., Texas
West
Alaska, Ariz., Calif., Colo., Hawaii, Idaho, Mont., Nev., N.M., Ore., Utah, Wash., Wyo.

	National '79	National '78	Your figures	Northeast '79	Northeast '78	Your figures
Total sales ($000)	$2,373	$1,953		$1,923	$1,774	
Sales from stock (% of total sales)	63%	65%		51%	52%	
Gross profit (% of total sales)	28%	25%		31%	22%	
Total operating expenses (% of total sales)	21%	21%		23%	18%	
Net profit before tax (% of total sales)	4.08%	4.08%		2.76%	2.72%	
Net profit after tax (% of total sales)	2.92%	2.52%		1.79%	2.21%	
ROI (return on net worth)	16.3%	15.2%		13.8%	11.4%	
Sales per employee ($000)	$142.1	$120.5		$149.1	$138.6	
Gross profit per employee ($000)	$39.4	$30.5		$46.9	$25.1	
Monthly inventory value ($000)	$300.4	$256.0		$264.7	$220.8	
Receivables value as of Dec. 31 ($000)	$234.6	$218.2		$203.1	$179.7	
No. of days outstanding at Dec. 31	48.1	42.5		53.8	50.0	
No. of invoices billed (000)	8.8	8.4		8.1	7.8	
No. of lines of billing per invoice	3.8	3.7		3.5	3.3	
No. of employees	16.7	16.2		12.9	12.8	
No. of outside salesmen	3.9	3.7		3.2	3.1	
No. of inside (phone and counter) salesmen	4.1	3.7		4.1	3.6	
Warehouse sq ft (000, including branches)	12.4	11.1		10.0	9.8	
No. of branch locations (avg.)	1.2	1.2		0.7	0.6	
Total compensation ($000)	$310.0	$253.0		$312.5	$261.4	

	South Atlantic '79	South Atlantic '78	Your figures	North Central '79	North Central '78	Your figures
Total sales ($000)	$3,100	$2,714		$2,391	$2,143	
Sales from stock (% of total sales)	64%	65%		64%	62%	
Gross profit (% of total sales)	28%	28%		25%	22%	
Total operating expenses (% of total sales)	23%	25%		18%	16%	
Net profit before tax (% of total sales)	4.95%	3.68%		3.92%	3.23%	
Net profit after tax (% of total sales)	4.13%	2.91%		2.09%	2.07%	
ROI (return on net worth)	16.7%	15.0%		15.6%	16.0%	
Sales per employee ($000)	$129.2	$116.5		$146.7	$141.0	
Gross profit per employee ($000)	$36.5	$32.2		$37.5	$22.4	
Monthly inventory value ($000)	$305.6	$312.5		$250.0	$246.4	
Receivables value as of Dec. 31 ($000)	$250.0	$267.9		$235.0	$195.0	
No. of days outstanding at Dec. 31	46.3	44.0		48.7	46.6	
No. of invoices billed (000)	7.5	6.9		8.3	8.9	
No. of lines of billing per invoice	3.1	3.0		4.1	4.0	
No. of employees	24.0	23.3		16.3	15.2	
No. of outside salesmen	4.8	4.1		4.3	4.1	
No. of inside (phone and counter) salesmen	5.2	4.5		3.6	3.4	
Warehouse sq ft (000, including branches)	16.7	15.5		11.4	9.7	
No. of branch locations (avg.)	2.1	1.9		1.2	1.2	
Total compensation ($000)	$400.0	$321.4		$244.6	$217.2	

	South Central '79	South Central '78	Your figures	West '79	West '78	Your figures
Total sales ($000)	$3,000	$2,111		$2,250	$1,942	
Sales from stock (% of total sales)	56%	68%		67%	72%	
Gross profit (% of total sales)	33%	34%		26%	27%	
Total operating expenses (% of total sales)	22%	21%		22%	25%	
Net profit before tax (% of total sales)	5.00%	6.49%		5.95%	5.00%	
Net profit after tax (% of total sales)	3.33%	3.80%		3.17%	2.40%	
ROI (return on net worth)	19.6%	18.1%		18.8%	16.3%	
Sales per employee ($000)	$150.0	$116.0		$135.5	$119.1	
Gross profit per employee ($000)	$50.0	$50.4		$34.6	$32.6	
Monthly inventory value ($000)	$375.0	$319.4		$316.2	$270.8	
Receivables value as of Dec. 31 ($000)	$277.8	$281.3		$239.3	$238.5	
No. of days outstanding at Dec. 31	41.7	42.9		45.8	46.3	
No. of invoices billed (000)	9.2	10.0		11.0	8.6	
No. of lines of billing per invoice	4.3	4.3		4.0	3.5	
No. of employees	20.0	18.2		16.6	16.3	
No. of outside salesmen	4.2	3.9		3.7	3.6	
No. of inside (phone and counter) salesmen	4.4	4.1		4.6	[illegible]	
Warehouse sq ft (000, including branches)	14.4	13.3		12.6	11.1	
No. of branch locations (avg.)	1.2	1.2		1.2	1.2	
Total compensation ($000)	$475.0	$450.0		$281.3	$225.0	

All figures are medians, except where averages are specified.

Industrial Distribution

July 1980

Hotline:
Recession plans unveiled as distributors confront downturn

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The elusive competitive edge

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Indicators. . .

Sales of industrial supplies and equipment rebounded in April following March's 2.4% decline, according to the *NIDA-SIDA Industrial Distribution Index*. Sales nationally were up 6.9 points (2.6%) over March and nearly the same amount (6.5 points, 2.4%) over year-before levels. The April reading was actually 11.5 points below dollar volume of last August, the high point of 1979. Product inflation also increased in April, according to the *NIDA-SIDA Inflation Index*. The latest rise put the index 2.1% over March, 12.6% over April 1979 and 82% over April 1974. Regional sales, comparing April to month-before and year-before levels, were: east, 261.1, up 1.8% and 14%; midwest, 260.3, up 3.1% and down 2.1%; west, 334.9, up 1.7% and 19.6%; south, 281.6, up 2.8% and down 3.5%. . .The *ASMMA New Order Index* stood at 221.4 in April, down 3.7 points (1.6%) from March and 42.1 points (16%) from April 1979. The latest listing was the seventh consecutive decline for the *NOI*. . .The *FRB Durable Manufactures Index* was at 139.4 in March, down 3.9 points. . .The *SIDA Monthly Sales Trend Report* showed a 0.65% decline for April. Worst hit was area III (Ala., Ky., Miss., Tenn.), down 5.8%. There was a 3.3% increase compared to the year-before level, but area IV (Ark., La., Okla., Tex.) posted a 7.6% decline for that period. . .The National Wholesale Hardware Assn.'s *Wholesale Hardware Index* had an April reading of 200.7, 0.7 points above March's. The index had an increase of 14.1% (24.8 points) over April 1979. . .The *Welding Supply Index* of the National Welding Supply Assn. reached a record level of 151.5 in April, up 5.5 points (3.7%) from March and 23.4 points (18.3%) from April 1979. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors dropped 5% (6.9 points) to 131.0 in April. The index was 8.1% below its April 1979 listing of 142.5. . . New factory orders dropped 5.5% in April, according to the Commerce Dept. It was the biggest decline since December 1974. . . Wages were up 9.1% at the end of the first quarter, compared to the year-earlier period. □

April sales took a fall

Distributor sales growth was flat in April, according to *Regional Report* respondents.

With the exception of a few areas, March-to-April results were posted in the minus column, although comparisons of April-to-April and the year-to-date figures indicate that the recession hadn't yet hit with full impact.

Once a downturn is definitely under way, efforts to pinpoint its start may seem academic. That, however, is not the case. According to the National Bureau of Economic Research, the average span from peak to trough of the last six recessions has been slightly less than 12 months.

And, according to the same source, this recession had its start in January. Does this mean the downturn could hit bottom as early as January 1981?

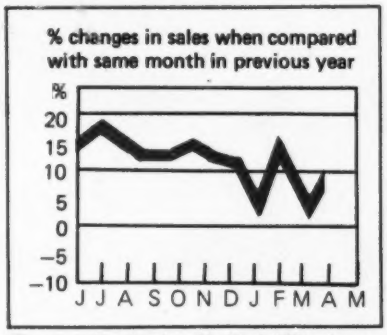
The bureau, a nonprofit research group widely respected for its analyses of business cycles, discreetly declined to speculate on the potential length or severity of this downturn.

It's clear that flat or negative sales growth will be the rule for at least the balance of the year, however.

Our respondents posted an average 12% increase in December-to-January sales; in February that figure dropped to 3%; in March it was 6%; in April, -1%.□

Receivables*	April 1980 Gen.	April 1980 Spec.	April 1979 Gen.	April 1979 Spec.
New England	41.6	44.8	44.3	39.8
Middle Atlantic	40.5	42.5	38.8	40.5
South Atlantic	36.8	40.9	37.6	37.2
East North Central	38.2	42.5	37.4	38.3
East South Central	38.9	42.0	38.0	41.1
West North Central	38.6	36.7	38.4	38.0
West South Central	37.5	40.9	36.9	37.1
Mountain	39.3	45.7	39.3	42.7
Pacific	35.2	41.6	35.8	41.3
National	38.5	42.0	38.5	39.6

*Average days outstanding



The overall sales level held at 10% above last April's, but the trend was downward...

SALES BY REGIONS (% change)	Apr. '80 vs. Mar. '80 Gen.	Spec.	Both	Apr. '80 vs. Apr. '79 Gen.	Spec.	Both	4 mos. '80 vs. 4 mos. '79 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	4	−5	−1	13	21	17	12	19	15
Connecticut	−7	−8	−7	14	24	14	17	18	17
Massachusetts	8	−4	3	16	18	17	18	17	18
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−1	−5	−3	15	18	17	7	15	11
New York Metropolitan Area	−1	−11	−7	17	20	19	14	15	15
Upstate New York	−9	−4	−7	14	14	14	10	13	12
Pennsylvania	3	7	4	14	20	16	4	20	9
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	3	−4	−1	18	12	16	17	16	17
Georgia-Florida	3	−5	−2	4	15	11	14	18	16
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−2	−3	−2	8	1	5	3	8	5
Indiana	11	−5	3	16	−15	1	5	3	4
Wisconsin	5	1	3	20	19	19	23	16	20
Chicago	−12	−6	−10	6	−7	2	10	10	10
Michigan	−1	−1	−1	2	16	9	−5	8	2
Ohio	−5	−5	−5	5	−12	−4	3	2	3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	1	−21	−10	6	2	4	4	8	6
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	11	−7	−1	5	3	4	2	8	6
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	3	−3	−1	14	−10	−2	15	−12	−3
Texas	−1	−5	−4	4	−21	−13	13	−22	−10
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	9	9	9	27	14	19	20	15	17
PACIFIC: Calif., Ore., Wash.	−1	12	6	16	16	16	14	5	11
L.A.-San Diego	−11	2	−5	2	19	11	7	3	5
Oregon-Washington	2	16	10	21	15	18	16	6	10
U.S. TOTALS	1	−2	−1	12	9	10	11	9	10

A 32-commodity inflation index and...

How to save taxes on slow movers

Now that IRS has forbidden write-downs below vendors' price unless the price has been reduced or the product scrapped, the need is greater than ever to find a valid way to value slow movers to minimize their value for IRS tax purposes. A simple procedure including use of a 32-commodity table offers distributors an option.

On February 8, IRS published new procedures for inventory valuation which make it illegal to write down slow moving inventory below vendor cost, unless you have scrapped the material or have based the value for tax purposes on a reduced selling price less only the direct costs of disposal. These new procedures now spell out for every distributor, accountant and IRS field agent what has always been the position of the national office of IRS, but hitherto was rarely enforced by agents in the field. The new rules are designed to implement a decision by the Supreme Court (in January 1979) applying to excess stock, and a decision of the Tax Court of the United States (in May 1979) holding that the fact that some excess stock is considered obsolete by taxpayers does not exempt it from valuation by Supreme Court rules.

These new rules invalidate methods of writing down slow movers which have been used by distributors for decades. They apply to all fiscal years ending after Dec. 25, 1979, thus apply to inventory valuations taken Dec. 31, 1979, even though you may have completed them before the new rules were announced. If you find this incredible, ask your accountant.

The new IRS rules are *Revenue Procedure 80-5* and *Revenue Ruling 80-60*. The Supreme Court decision was in *Thor Power Tool Co.*, in which the Supreme Court backed IRS to the hilt. The Tax Court decision was in *Will Burt Co.*, which applied to parts for obsolete coal stokers. The reduced valuation was not accepted for tax purposes because it was not based on a reduction of selling prices as required by IRS regulations in effect since 1922, but which were rarely enforced. The new IRS rulings thus remove the sole significant advantage of FIFO (lower of cost or market valuation) over LIFO (last in, first out, understood as "not tax on inventory inflation").

In view of the interpretations by the Supreme Court in *Thor* and the Tax Court in *Will Burt*, the outlook for relief through further court action is dim, but in our judgment should be pursued, as the write-downs taken by distributors are different from the kind involved in the Thor case. The industry has been lax in not heeding the warning signs and in not attempting to get relief through Congress.

Legislative relief will be difficult to get and the process could take years. What do you do meantime? You either disobey the law and risk the consequences or seek valid ways of minimizing the tax impact of compliance. There are ways to minimize the tax impact of compliance.

How to value slow movers.

Under FIFO you are allowed to value your inventory at vendor cost, or at vendor market cost, whichever is lower. Market cost means replacement cost. In this period of inflation, except in industries like electronics (where costs seem still to be decreasing), slow movers should be valued at actual vendor cost, not at replacement cost, unless you have a definite reason for thinking replacement cost is lower.

Taxpayers on FIFO (lower of cost or market) are not permitted to use an average cost. Where they cannot identify items with specific invoices, they are supposed to use the latest cost. But on normal stock, distributors with thousands of items may find it too costly to post their costs on every purchase in some permanent record. Suppose you are getting about four turns on your inventory. An IRS agent is not likely to make an issue of it if you value your normal stock at the price sheet in effect September 30, three months before the end of your fiscal year, if that is the calendar year.

But on slow movers, particularly if you are restoring them from write-downs by methods now outlawed by IRS, it would pay to try to identify actual cost. The most accurate way to do so would be to identify the latest invoice on which you bought the item, going back to earlier invoices where the quantity on hand exceeds the last quantity purchased. But if this is too much work, go by the latest invoice you can find. In this period of high and protracted inflation, going back to actual cost may bring your valuation of slow movers back to its value by the methods now outlawed by the courts and IRS.

But for many distributors, it would be costly or even impossible to identify invoices on many slow movers which may not have been purchased for years. If you have perpetual inventory or receipt records to back you up, it is better to use them to approximate actual cost than to use a current (market) vendor price which is obviously far higher than the price at which you bought the material. There are actual cases where IRS has compelled a restoration of write-downs by methods deemed invalid by IRS, then has compromised by restoring them to a level a substantial percentage below market cost. But in many cases, the distributor settled for a percentage far higher than was justified by his records.

First, let me point out that going back to actual cost is not valid for only FIFO users. It is also the preferred basis for distributors when converting to LIFO. The IRS regulation dealing with the unit cost to be used in converting from FIFO to LIFO seems sufficiently flexible to permit going back to original invoice cost on slow-movers, or using current cost from vendor price sheets, if this was your customary valuation method on FIFO just before converting to LIFO. But you must restore all write-downs to a now-invalid market value below cost. Hence, it is our view, supported by conversations with other inventory valuation specialists, that whether FIFO or LIFO is involved, if you can't find old invoices on slow-movers, it is reasonable to seek some other method of establishing original or actual cost.

Valuation without vendor invoices

Where vendor invoices are lacking on slow movers, use the Bureau of Labor Statistics (BLS) indexes for product lines in your inventory to arrive at a valid acceptable estimated original

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cost, based on current cost less the inflation revealed by these indexes (see table). You merely work backward, using current vendor price sheets minus inflation. You can go back as far as 1967, the BLS base year when the average yearly index for each product line was 100. It is not worth the effort to attempt to look up indexes before 1967, because the different base year then used could require intricate calculations, and there was too little inflation in those pre-1967 years to justify the effort.

Here's how you go about valuing slow movers where invoices can't be found. Suppose you have a certain hand tool which your records suggest has not been purchased since 1969.

■ **Step 1**—You now have 10 on hand and have been selling them at a rate of about one a year. Perhaps this tool was special-ordered for a customer and canceled, and the vendor representative sweet-talked you out of returning it to the vendor, promising to dispose of the item for you. Thus, in this case, the best available evidence suggests that this hand tool was bought 10 years ago. You have long since discarded vendor invoices that old.

■ **Step 2**—Turn to the table showing the new listing of BLS indexes for 32 industrial commodity groups. Hand tools is number 11 in this table. In December 1979, the BLS index is 256.7. Ten years ago, when you appear to have last purchased it, would be 1969. For 1969 the BLS index is 113.9. Line 2 of this 11th product line reads ".4437." That means that the BLS index in December 1969 is .4437 of the BLS index in December 1979.

■ **Step 3**—Suppose the vendor's current price sheet shows this hand tool cost you $100. Then multiplying this by the factor .4437, you would use $44.37 as the estimated actual cost.

Ten of the 32 product lines on this list (indicated by an asterisk) are the lines used by NIDA/SIDA (National and Southern Industrial Distributors Assns.) to produce their monthly composite index. At the bottom of the ***ID*** listing of industrial indexes, the NIDA/SIDA composite index is shown.

What do you do if you have items which fall in product lines not shown in ***ID***'s product indexes? You have several options. You can use a similar line as a proxy or stand-in. The BLS does this all the time. For example, suppose we show stainless steel tubing, but you have stainless steel pipe, or vice versa. Use the index of the comparable line as a stand-in for the one we don't show.

For those few lines for which you cannot find reasonable comparable lines, you have two further options. You can elect

Index of inflation for 32 key industrial product groups

BLS code	BLS product category		MONTH/YEAR Dec. 1967	Dec. 1968	Dec. 1969	Dec. 1970	Dec. 1971	Dec. 1972	Dec. 1973	Dec. 1974	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
0576-0106	Industrial oil	Multiplier	—	—	—	—	—	—	—	177.6	171.5	168.0	190.9	200.3	275.1
		Index	—	—	—	—	—	—	—	.6455	.6234	.6106	.6939	.7280	
0621	Prepared paint		102.6	106.0	110.1	112.8	115.9	118.2	128.6	161.8	170.2	177.3	185.9	199.1	210.7
			.4149	.4031	.4288	.4354	.4501	.4610	.5103	.6309	.6636	.6915	.7249	.7764	.8215
0713-03	Rubber belts & belting*		103.6	109.7	119.1	129.5	135.0	138.5	144.4	165.8	176.9	196.3	207.5	217.7	238.1
			.4351	.4607	.5002	.5439	.5670	.5817	.6066	.6963	.7430	.8244	.8716	.9143	
0713-04	Other misc. rubber products		103.1	105.4	110.9	116.2	118.3	119.7	124.8	148.6	155.7	169.9	176.5	189.9	216.2
			.4761	.4875	.5130	.5375	.5472	.5537	.5772	.6873	.7202	.7856	.8164	.8784	
0721	Plastic construction products		—	—	100.0	95.2	93.8	93.3	94.8	132.3	121.0	129.4	134.7	137.3	148.3
					.8419	.8015	.7895	.7854	.7981	1.1139	1.0187	1.0894	1.1339	1.1561	1.2485
1013-02	Finished steel products		100.8	103.0	110.0	123.8	128.0	130.2	132.4	192.0	206.6	219.7	236.6	261.1	288.5
			.3494	.3570	.3813	.4291	.4437	.4513	.4589	.6656	.7161	.7616	.8201	.9050	
1026	Wire & cable		100.6	96.8	118.3	120.7	116.1	116.2	133.3	173.4	146.7	150.7	151.0	161.9	203.0
			.4850	.4669	.5708	.5823	.5602	.5605	.6430	.8365	.7076	.7269	.7284	.7809	
1026-01	Copper wire & cable		—	—	100.0	119.1	114.7	114.8	134.6	172.9	142.3	145.7	145.5	155.2	157.1
					.5071	.6043	.5819	.5824	.6830	.8772	.7220	.7392	.7382	.7874	
1026-02	Aluminum wire & cable		—	—	100.0	107.0	110.1	110.7	104.3	153.1	161.0	168.4	174.9	186.6	219.6
					.4550	.4868	.5014	.5071	.4750	.6972	.7331	.7669	.7964	.8496	
1041-01	Builders hardware		101.2	103.1	107.8	126.2	117.7	121.5	127.5	156.3	159.1	169.2	178.9	195.7	215.6
			.4604	.4703	.4906	.5739	.5354	.5526	.5799	.7112	.7240	.7698	.8139	.8904	
1042	Hand tools*		102.2	107.0	113.9	119.8	125.3	130.1	137.0	170.3	185.7	196.5	210.2	231.4	256.7
			.3981	.4169	.4437	.4667	.4881	.5066	.5337	.6634	.7234	.7654	.8188	.9014	
108	Misc. metal products*		100.4	103.9	109.3	127.7	120.9	124.8	134.7	176.7	182.8	191.1	202.6	221.1	239.9
			.4188	.4335	.4560	.5329	.5040	.5207	.5618	.7369	.7625	.7971	.8453	.9216	
1074-0195	Fabricated steel pipe & fittings		103.7	110.2	117.5	127.7	137.1	137.1	149.7	210.6	230.9	241.2	249.9	277.2	297.8
			.3482	.3700	.3946	.4289	.4604	.4604	.5026	.7072	.7753	.8097	.8391	.9306	
1081	Bolts, nuts, screws & rivets (fasteners)*		101.1	109.4	117.9	125.1	126.2	132.2	142.8	198.8	200.2	200.5	205.6	220.3	240.1
			.4210	.4558	.4910	.5215	.5260	.5506	.5948	.8280	.8339	.8350	.8565	.9176	
1132	Power-driven hand tools*		101.4	104.6	112.6	118.9	117.3	117.5	117.5	138.0	139.8	145.7	154.8	166.3	180.3
			.5624	.5801	.6245	.6594	.6506	.6517	.6517	.7654	.7753	.8080	.8583	.9223	
1133	Welding machines & equip.		100.8	102.4	108.6	119.1	116.8	121.8	128.7	182.5	186.6	187.8	201.7	214.6	231.5
			.4354	.4423	.4691	.5144	.5045	.5216	.5560	.7883	.8060	.8199	.8712	.9270	
1135	Cutting tools/ acces.*		101.8	105.3	110.9	114.9	120.6	124.1	127.6	156.5	170.0	185.4	198.3	212.7	233.6
			.4368	.4518	.4757	.4929	.5063	.5313	.5482	.6699	.7277	.7937	.8489	.9105	

From BLS December *Producers Price Index* for years shown

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to use the NIDA/SIDA composite index as the most reasonable basis for arriving at original cost. Or to find if the BLS has an index on your product line, write or call Alan Silver, 168 Woodbridge Ave., Highland Park, N.J. 08904. (Tel. 201 572-2300).

IRS' view

After an extensive examination, which includes checking with other inventory valuation specialists, I must concede that there is nothing in IRS regulations or revenue rulings which says that you may use the method I suggest when invoices are no longer available. But there are some court cases which suggest to us that it is reasonable to use the method we suggest here when invoices can't be found, with the agreement of your tax adviser. Other specialists share this view. But specialists for large national accounting firms, while they have the resources to do so, rarely take up such matters with IRS. It is difficult to get the national office of IRS to give you a favorable private ruling, particularly nowadays when under the *Freedom of Information Act* the ruling must be published. If an IRS staffer slips and opens up a tax loophole, his career with IRS could be tarnished for the rest of his life. So most specialists in a matter like this would make recommendations, but point out that it is impossible to give an absolute guarantee that no agent will find fault. Regard this as a bridge to be crossed when reached. To use the current cost on a slow mover bought years ago is to insure that you are using a cost far above what you actually paid for it. Thus, there seems nothing to lose, but a lot to gain, by attempting by the most reasonable available method to approximate actual cost.

A distributor who uses the documentation outlined here will be challenged if the use of BLS indexes is limited to cases where vendor invoices are not available to establish original cost. But for valuation of your normal stock, if you are on LIFO, use of outside indexes to establish the inflation rate is forbidden by a revenue ruling. Except for department stores where a special provision was made by IRS, you must compile an index of inflation based on your own operation.

The 10-year spread

The restoration of write-downs invalidated by the Supreme Court decision in Thor can be a very expensive proposition for distributors who had accumulated large write-offs, even if restoration is made to actual cost, rather than to replacement

(Bureau of Labor Statistics - BLS Average 1967 = 100)

BLS index multiplier

BLS code	BLS product category		MONTH/YEAR Dec. 1967	Dec. 1968	Dec. 1969	Dec. 1970	Dec. 1971	Dec. 1972	Dec. 1973	Dec. 1974	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
1135-02	Precision measuring tools	Multiplier	100.8	103.3	105.0	135.8	109.1	110.2	114.0	129.2	140.7	144.4	155.8	172.9	190.9
		Index	.5280	.5405	.5500	.7113	.5765	.5772	.5971	.6768	.7370	.7564	.8161	.9058	
1136	Abrasive products*		101.8	106.3	110.9	114.9	120.6	124.1	127.6	156.5	170.0	185.4	198.3	212.7	233.6
			.4358	.4507	.4717	.4818	.5162	.5312	.5462	.6700	.7277	.7937	.8459	.9105	
1137	Metal cutting machine tools		—	—	—	—	100.0	121.5	133.9	167.2	184.4	197.6	217.0	247.6	238.2
							.3470	.4215	.4646	.5801	.6399	.6856	.7530	.8670	
1138	Metal forming machine tools		—	—	—	—	100.0	126.7	138.1	180.3	202.8	217.6	242.6	282.3	318.1
							.3143	.3983	.4341	.5669	.6375	.6840	.7626	.8874	
1141	Pumps, compressors & equip.		102.9	105.4	112.4	150.5	122.2	124.8	131.7	179.5	191.1	208.5	218.3	236.1	259.1
			.3971	.4067	.4338	.5305	.4716	.4816	.5082	.6822	.7375	.8054	.8435	.9112	
1143	Fluid power equip.		—	—	—	100.0	102.7	105.0	107.8	129.6	139.6	147.4	157.3	168.1	184.5
						.5420	.5566	.5691	.5024	.7024	.7566	.7989	.8535	.9111	
1144	Industrial material handling equip.*		101.4	106.2	111.5	117.0	121.2	123.7	129.8	159.4	176.1	189.0	201.7	220.5	240.6
			.4214	.4413	.4634	.4862	.5037	.5141	.5394	.6625	.7319	.7855	.8383	.9164	
1145	Mechanical power transmission equip.*		101.0	104.3	110.4	119.0	121.0	126.9	133.0	166.6	177.8	189.7	204.1	221.8	245.8
			.4109	.4255	.4491	.4841	.4922	.5162	.5411	.6777	.7233	.7717	.8303	.9024	
1149-01	Valves & fittings*		101.0	103.0	108.7	114.9	120.4	121.4	132.6	188.5	202.4	208.5	220.0	241.8	263.4
			.3763	.3837	.4049	.4280	.4485	.4523	.4940	.7015	.7540	.7768	.8194	.9008	
1149-05	Ball & roller bearings		100.1	102.4	107.0	95.4	115.3	132.9	123.4	159.9	168.4	183.1	196.2	213.2	239.7
			.4211	.4307	.4501	.4063	.4850	.5591	.5191	.6726	.7084	.7702	.8261	.8969	
1149-06	Plain bearings		100.1	105.6	118.8	169.3	124.3	130.8	164.2	182.0	187.6	180.4	196.9	232.3	248.9
			.4021	.4242	.4773	.5301	.4993	.5255	.6597	.7312	.7539	.7247	.7910	.9332	
1171	Wiring devices		100.7	106.1	112.2	135.7	122.6	124.7	131.9	177.5	187.5	194.5	205.9	227.6	257.0
			.3918	.4128	.4365	.5280	.4770	.4852	.5132	.6906	.7295	.7568	.8011	.8856	
1172-01	Electrical Instruments		105.1	107.5	114.4	121.1	126.0	128.4	130.0	151.1	162.8	169.2	178.3	186.7	191.5
			.5488	.5613	.5973	.6323	.6579	.6704	.6793	.7890	.8501	.8835	.9313	.9749	
1173-01	Electric motors		101.9	103.5	110.8	99.5	115.9	120.3	128.4	162.6	172.3	184.9	198.0	218.7	236.8
			.4303	.4368	.4679	.4200	.4874	.5080	.5422	.6866	.7276	.7787	.8361	.9235	
1173-02	Generators & generator sets		101.2	105.1	113.1	120.2	126.3	129.0	133.0	164.9	192.1	208.1	223.7	232.9	252.6
			.4006	.4160	.4477	.4750	.5000	.5106	.5265	.6528	.7604	.8238	.8855	.9220	
	*From NIDA/SIDA Index: a composite		101.4	106.4	112.6	117.6	120.3	124.0	129.4	162.9	172.9	183.7	196.8	213.8	235.0
			.4315	.4528	.4791	.5004	.5119	.5277	.5506	.6932	.7357	.7817	.8374	.9098	

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cost. In effect, the restoration becomes additional income in the year it takes place. But this income was not earned in that year. The write-downs which are the basis of this additional income were usually accumulated over a number of years. IRS has conceded that where that is the case, the taxpayer is entitled to spread the payment of this additional income over twice the number of years involved, but (in *Revenue Procedure 80-5*) not to exceed 10 years. No interest is charged, which is a good deal in this era of high interest rates. If you are thinking of invoking this "spread" of up to 10 years, you and your accountant should read the provisions of *Revenue Procedure 80-5* and *Revenue Ruling 80-60* carefully and possibly consult an inventory valuation specialist.

While at first glance the 10-year spread may seem to be a bonanza for any distributor or manufacturer who has to make substantial restorations, beware of Greeks bearing gifts! *Rev. Proc. 80-5* says unequivocally that if you take the "10-year spread" and go on LIFO then or later, you must pay up any outstanding balance of the 10-year spread when you elect LIFO.

Ordinarily, we are against taking the 10-year spread and continuing to use the FIFO method of valuation rates. The extra taxes you must pay, as compared to avoiding the 10-year spread and going on LIFO, are usually horrendous. (Feasibility studies suggest it is best to go on LIFO and to restore write-downs without the 10-year spread.)

Summary

With the new IRS rulings forbidding distributors to write down inventory below vendor cost, there are no longer any significant advantages of FIFO (lower of cost or market) over LIFO (last in, first out). Therefore, all distributors would do well to study the feasibility of restoring their write-downs to actual or original cost—not replacement cost, and going on LIFO. (***ID:*** May 1980.) Where invoices are lacking, it should be acceptable to use BLS indexes, such as the new ***ID*** index, to arrive at actual cost. While you can spread the extra income from such restoration over as many as 10 years if you remain on FIFO, but cannot spread the income on LIFO, the benefits of LIFO are likely to be much greater, making it the better choice.□

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Industrial Distribution

August 1980

Hotline: Cash flow sluggish; distributors deferring payables

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Indicators...

Sales of industrial supplies and equipment declined slightly in May, according to the *NIDA-SIDA Industrial Distribution Index*. Sales nationally were at 138.7, down 2 points (1.4%) from April and up 8.3 points (6.4%) from May 1979. (The index now uses 1977 as its base year, rather than 1967. For more information on the switch, see related news story on page 14.) The *NIDA-SIDA Inflation Index*, which now also uses 1977 as a base year, was at 130.6 in May, up 1.1 points (0.85%) from April and 14.9 points (12.9%) over the year-before figure. Regional sales, comparing May to month-before and year-before levels, were: east, 150.0, down 1.5% and up 11.2%; midwest, 125.4, down 2.9% and 0.9%; west, 165.7, down 1.9% and up 8.4%; south, 140.5, up 2.9 and 19.1%...The *ASMMA New Order Index* stood at 206.4 in May, down 15 points (6.8%) from April and 55.5 points (21.2%) from May 1979. It was the NOI's lowest reading since October 1977...The *FRB Durable Manufactures Index* was at 135.0 in May, down 3.9 points from April...The *SIDA Monthly Sales Trend Report* had a 2.0% drop in April-to-May sales and a 5.6% decline in May 1979-to-May 1980 sales. Sales in the first five months of 1980 to the same period in 1979 had only a 0.54% improvement...The National Welding Supply Assn.'s *Welding Supply Index* dropped 7.4% in May, from 151.5 to 140.2. That reading was only 0.4 points above the year-before level...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors slipped 10 points (7.6%) in May, to 121, 5.9 points (4.6%) below May 1979...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 3.4 points (1.7%) below April and 3 points below May 1979...Production and new orders dropped again in June, according to the National Assn. of Purchasing Management's *Business Survey Report*. The PA's were pessimistic: 58% reported a marked decline in orders, the greatest number in the history of the report, while the number reporting lower production was exceeded only by the May survey's total, which was the largest since World War II. Also, respondents are cutting back on inventory: 13% reported hand-to-mouth buying, up 4%, for production materials, with 39% in that category for MRO, up 5%...Business inventories declined in May for the first time in more than four years, according to the Commerce Dept. The 0.1% overall drop included a decline of 0.4% in wholesalers' inventory. That category recorded a 1.1% increase in April.□

May sales hit by recession

The five-month-old recession took its first big bite out of distributor sales during May, according to *Regional Report* respondents.

General liners appeared to be worst hit—7% below April levels and 5% under year-before levels—but specialists, down a total of 1% in either period, also felt the pinch.

Distributors weren't the only ones to record steep drops in May business activity.

Respondents to the National Assn. of Purchasing Management's *Business Survey Report* cited a worse decline in orders during May than at any time in the last 30 years.

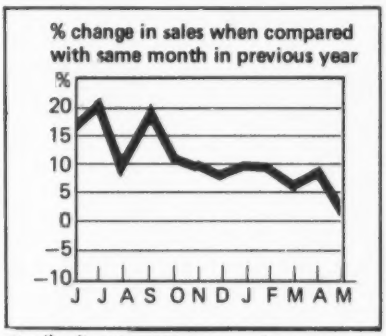
New factory orders fell for the fourth consecutive month, according to the Commerce Dept. May's 2.6% decline was less than half of April's precipitous 5.9% drop. A parallel was found in Commerce's index of leading indicators: down 2.4% in May, 4.1% in April. Business inventories dropped 0.1% in May, however, for the first time in more than four years.

In all, the decline shown in the first five months of the year seemed to conform to a predicted "V" pattern—very rapid and sharp, without levelling plateaus.

Of course, it remains to be seen whether the complete pattern—rapid improvement—is coming. If it isn't, 1980 could become a year of negative sales growth. □

Receivables*	May 1980 Gen.	May 1980 Spec.	May 1979 Gen.	May 1979 Spec.
New England	43.8	39.7	39.9	41.0
Middle Atlantic	39.1	44.4	38.2	44.3
South Atlantic	37.6	37.6	38.8	35.6
East North Central	40.7	39.9	39.5	37.5
East South Central	43.3	38.7	40.5	39.8
West North Central	40.8	39.5	39.9	42.4
West South Central	36.9	38.9	37.2	39.8
Mountain	40.8	43.8	40.2	42.1
Pacific	37.6	40.9	37.1	41.3
National	40.1	40.4	39.0	40.4

*Average days outstanding



For the first time this year, sales were below the level of year-earlier period...

SALES BY REGIONS (% change)	May '80 vs. Apr. '80 Gen.	Spec.	Both	May '80 vs. May '79 Gen.	Spec.	Both	5 mos. '80 vs. 5 mos. '79 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	−9	−3	−7	−6	3	−3	10	17	13
Connecticut	−17	5	−6	−11	23	6	16	18	17
Massachusetts	−5	9	−1	−6	−9	7	7	14	9
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−7	−1	−4	1	−1	−1	8	15	12
New York Metropolitan Area	−5	8	1	1	8	4	13	25	18
Upstate New York	−4	−1	−3	4	−4	1	13	8	11
Pennsylvania	−10	−8	−9	−2	−5	−4	3	11	7
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−3	−1	−2	−3	2	−1	10	13	12
Georgia-Florida	−4	1	−2	2	2	2	16	15	16
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−5	−2	−4	−8	−5	−7	3	2	3
Indiana	−9	−2	−6	−15	−10	−13	1	−3	−1
Wisconsin	−10	−3	−7	−5	−3	−4	13	6	9
Chicago	5	14	9	6	−3	2	7	5	6
Michigan	−13	−18	−16	−17	−4	−11	−1	1	0
Ohio	1	−3	−1	−9	−6	−8	−4	1	−3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−13	−11	−12	−9	−17	−12	5	−3	2
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	−12	11	−2	−26	7	−6	−6	8	2
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−9	4	3	1	12	6	13	1	8
Texas	−7	2	−3	4	8	6	15	−6	5
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−11	−8	−10	1	2	1	14	10	12
PACIFIC: Calif., Ore., Wash.	−4	−6	−5	−5	−11	−8	6	−1	3
L.A.-San Diego	1	−1	1	−12	−16	−14	4	−2	2
Oregon-Washington	−6	−9	−8	−2	−7	−5	7	1	4
U.S. TOTALS	−7	−1	−4	−5	−1	−3	8	7	7

September 1980

Hotline: Distributors see no trend despite price-fixing suits

Compensation update: 1980...

Industrial Distribution

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ASMMA polls show California tops Texas for first place in 1979 sales

CLEVELAND—California emerged as the leading state for distributor sales during 1979, according to a survey by the American Supply & Machinery Manufacturers' Assn. In edging out Texas, California returned to the position it held for the first half of the 1970's in ASMMA's *Sales Through Industrial Distributors Survey*.

The survey, which had 162 respondents, ranks volume of industrial supplies sold through distributors by city, county, state and region and product category. While year-to-year changes are rarely dramatic, they point to some trends.

For instance, California's pre-eminent position in per-state industrial sales—8.59% in 1979—is part of a trend that has made the Pacific states (Calif., Wash., Ore., Alaska, Hawaii) a stronger marketplace: 11.967% of total U.S. sales in 1973 to 12.504% in 1979.

The mountain states (N.M., Ariz., Colo., Utah., Nev., Wyo., Mont., Idaho) have also benefited from western expansion. From a base of 3.747% in 1973, their 1979 total was 4.173%.

The west south central states (Ark., La., Okla., Texas) actually had the most impressive 1973-to-1979 growth: from 11.287% to 12.918%.

Even so, it is clear that industrial distribution's traditional stronghold regions—the east north central, mid-Atlantic, New England and south Atlantic—have in no way gone into an absolute decline because of shifts in sales.

The east north central states (Ind., Mich., Ill., Wis., Ohio,) lost 0.862% between 1973 and 1979. But that heavily industrialized region still accounts for 26% of the goods sold by industrial distributors in the U.S.

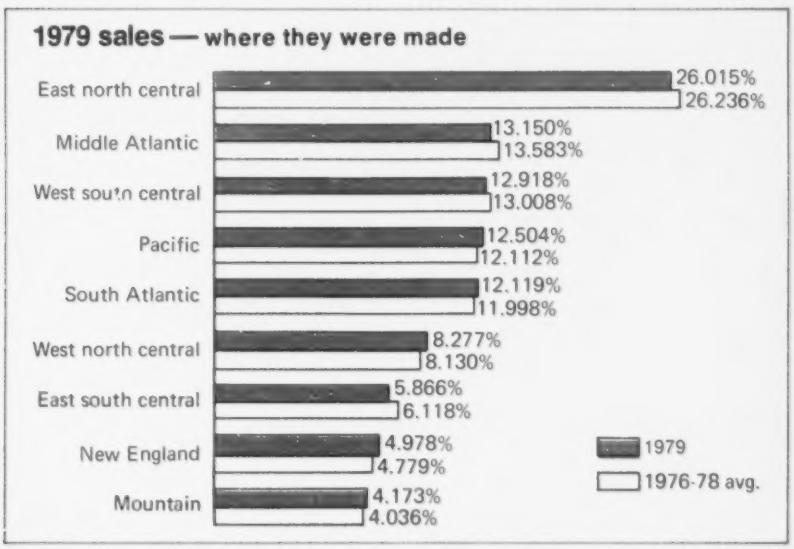
The New England states, down 0.366% in volume during that period, are up 0.199% over their 1976-78 average, for a 4.978% share. The middle Atlantic states (N.Y., N.J., Pa.) had one of the most severe declines in the 1973-to-1979 period, 1.364%, but still have a 13.150% share—second largest behind the east north central region.

The ASMMA poll shows that the south Atlantic region (Del., D.C., Md., Va., W.Va., Fla., Ga., N.C., S.C.) has been unable to pull ahead with the rest of the Sun Belt. While ahead by 0.121% of its 1976-78 average, the region is 0.572% behind its 1973 total. The last of the Sun Belt states (the east south central: Ala., Miss., Ky., Tenn.) have remained almost steady in the 1973-to-1979 period, up 0.049%, to 5.866%.

Finally, the west north central states (Minn., N.D., S.D., Iowa, Neb., Kan., Mo.) had a little more growth: 0.521% since 1973.

Also of interest is ASMMA's complete listing of the 10 leading states for in-

[continued on page 15]



[continued from page 5]
dustrial distribution. In 1979, the California-Texas switch wasn't the only news. New Jersey, which traditionally held no. 10 spot, was ousted by Wisconsin. The remaining top-tenners are, in order: Ohio, Illinois, Pennsylvania, Michigan, New York, Indiana, Missouri.

The survey also charts Canadian distributor sales. The results (in percentages) are: Ontario, 40.774, 1979, 44.064, 1976-78 avg.; Quebec, 24.901, 1979, 23.651, 1976-78 avg.; Alberta, 10.952, 1979, 10.610, 1976-78 avg.; British Columbia, including the Yukon Territory, 11.321, 1979, 11.463, 1976-78 avg.; Manitoba, 4.247, 1979, 3.887, 1976-78 avg.; Saskatchewan, 3.074, 1979, 1.994, 1976-78 avg.; New Brunswick, 2.015, 1979, 1.842, 1976-78 avg.; Nova Scotia, 2.108, 1979, 1.688, 1976-78, avg.; Newfoundland, 0.518, 1979, 0.724, 1976-78 avg.; Prince Edward Island, 0.090, 1979, 0.077, 1976-78 avg.

Total U.S. sales volume for 1979 for the 162 reporting companies was $3.6 billion. Canadian volume, for 96 companies, was $214 million.

Copies of the 24-page report, the 28th edition of the survey, are available from ASMMA, 1230 Keith Bldg., Cleveland, Ohio 44115. The per-copy price for nonmembers is $100. The current survey and back reports are available at a number of business-school libraries. □

Compensation Update: 1980

What's new in distribution compensation? Profit sharing is still important, but fewer companies are moving to it. Bonus incentives reach all levels of the typical company. Inside-sales incentives are on the rise, but top dollar still goes to outside sales.

At Company A, Bill is making $37,000 as an outside salesman. It's a respectable income, half salary and half commissions. Not bad, even after 40 years with the company.

At Company B, John is paid $35,000 for the same work, although he has only 15 years' experience. And the risk is smaller, since it's a straight-salary job.

At Company C, Fred is doing very well indeed. With three years' experience on the road, he's pulling in $42,000. He's proven himself quickly; this is a commission-only spot.

Nowhere in industrial distribution is the disparity in compensation wider than in sales. But lack of uniformity is found in pay structures across the industry, for every position.

Obviously, this has much to do with the structure of the industry itself—highly fragmented into general line and many specialties, largely privately held, mostly non-union, and spread across the country in some 15,000-plus locations.

Always in flux, distribution adapts readily to economic conditions, and despite declines and soaring inflation, continues in a growth mode. And one area that moves with the trend is compensation, a reason ***ID*** reports compensation trends at least once annually.

Mobility, retaining good people and keeping them motivated and productive are perennial problems in distribution. Competition within the industry for fast-trackers and experienced pros is as keen as ever. In this report, ***ID*** offers the findings of a nationwide survey to point up what distributors are paying to maintain managers and staffers in 1980.

Compensation, basically, is how management keeps employees as content as possible while contributing to profit through productivity. Profit sharing remains one of the most popular and forceful compensation perks, although our survey indicates that this time-honored strategy may have passed its popularity peak.

Some 65% of respondents had a profit-sharing plan. But that high percentage masks the fact that relatively few firms are newcomers to this area. The average age of the plans is 13 years, with a range of one to 50 years. However, only 27.5% were started in the last five years, while 37.5% are six to 15 years old and 35% are 16 or more years old.

Profit sharing

Is profit sharing effective? Certainly, in many cases. But, comments a Louisiana distributor whose plan produces a monthly check for each employee, the problem arises when workers come to see that as part of their compensation.

"Some workers produce," he said. "They look forward to the money. But some really don't care."

Perhaps part of the reason fewer distributors seem to be turning toward profit sharing is the move within the industry to motivate inside sales personnel with incentive compensation.

That technique, under considerable discussion in distributor circles over the last few years, appears to have quietly made a large impact. Nearly 81% of respondents do offer inside salesmen some sort of extra compensation.

Of course, the amount varies considerably. ***ID***'s poll produced a range of 0.5% of total compensation to an impressive 40%. The average is 11.2%.

Naturally, the type of compensation-enhancer chosen has much to do with the amount gained. The bonus, defined as an overall performance reward, dominated among respondents, with 48% for it. This method is likely to involve the smallest amount of extra compensation.

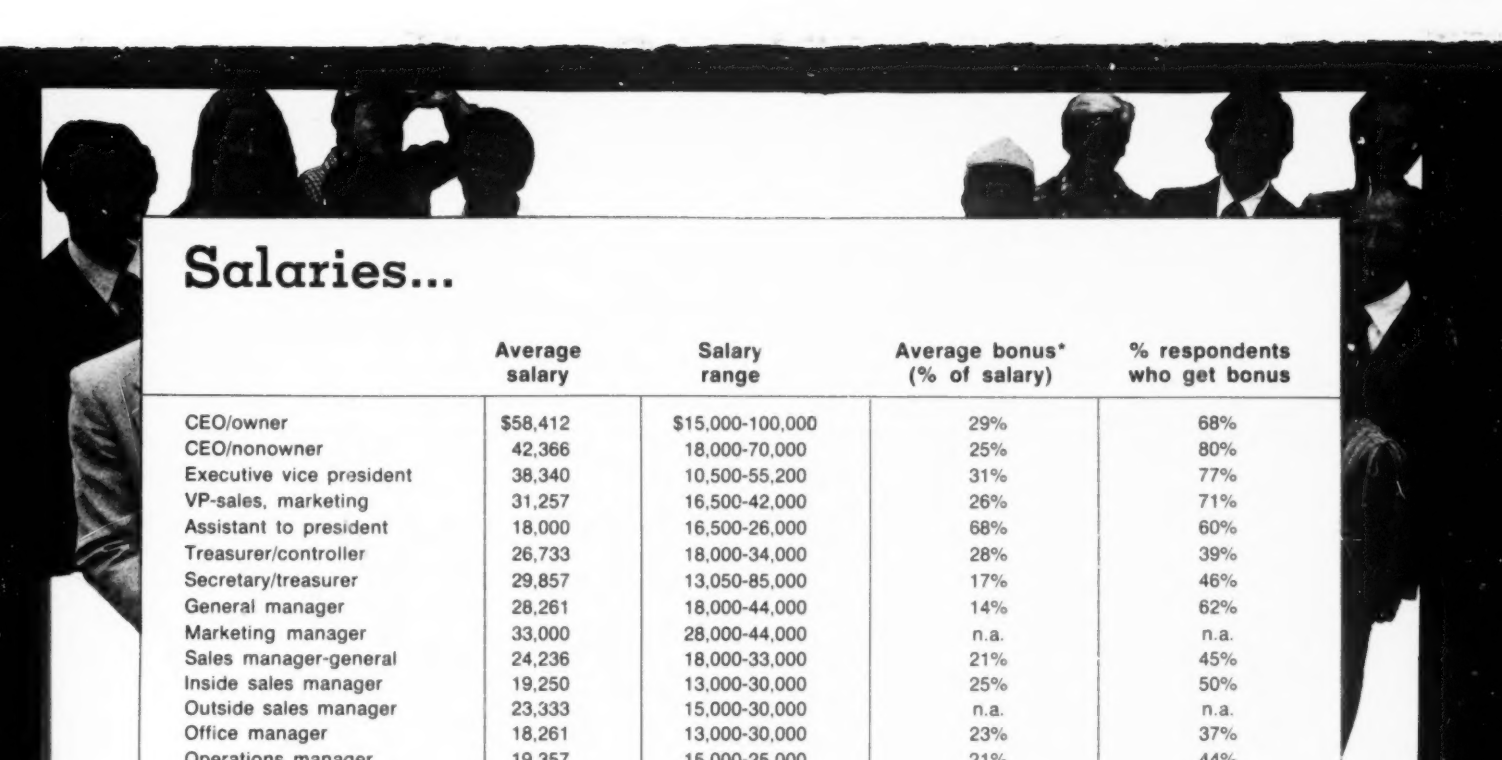
Commissions followed, with 22% opting for this method. Next in line was incentives, with 19%. The balance of responses was in the "other" category and involved percentages of special sales, commissions on written sales, sales contests with outside personnel, commissions on unassigned sales, profit over goals, total profit and incentives based on gross profit margins.

Sales managers have always known the value of incentive compensation in outside sales. Here, as in other studies, salary plus commissions and incentives proved to be the most popular option, with 44%. Straight-salary compensation was tied with "other"—largely bonus-based methods—at 11.8%, while straight-commission plans were registered by a total 32.4%.

While radical moves in outside sales compensation are not likely, one shift within distribution is being felt, according to survey respondents.

Again, productivity is the key word. The idea: Why not link inside salesmen with specific outside personnel? That way, the inside person can take up some of the slack for the outside salesman, particularly with small accounts.

How feasible is it? Some 39% of re-



Salaries...

	Average salary	Salary range	Average bonus* (% of salary)	% respondents who get bonus
CEO/owner	$58,412	$15,000-100,000	29%	68%
CEO/nonowner	42,366	18,000-70,000	25%	80%
Executive vice president	38,340	10,500-55,200	31%	77%
VP-sales, marketing	31,257	16,500-42,000	26%	71%
Assistant to president	18,000	16,500-26,000	68%	60%
Treasurer/controller	26,733	18,000-34,000	28%	39%
Secretary/treasurer	29,857	13,050-85,000	17%	46%
General manager	28,261	18,000-44,000	14%	62%
Marketing manager	33,000	28,000-44,000	n.a.	n.a.
Sales manager-general	24,236	18,000-33,000	21%	45%
Inside sales manager	19,250	13,000-30,000	25%	50%
Outside sales manager	23,333	15,000-30,000	n.a.	n.a.
Office manager	18,261	13,000-30,000	23%	37%
Operations manager	19,357	15,000-25,000	21%	44%
Warehouse manager	16,730	10,000-29,000	13%	45%
Branch manager	23,071	12,000-35,000	22%	47%
Purchasing manager	20,376	12,000-35,000	17%	59%
Purchasing agent	15,488	10,000-24,000	27%	33%
Sales promotion manager/PR	17,221	12,000-25,000	n.a.	n.a.
Data processing manager	17,221	12,000-25,000	12%	42%
Data processing staff	13,757	9800-20,000	12%	33%
Counter sales	12,486	7800-20,000	13%	37%
Bookkeeper	12,612	8000-18,000	9%	40%
Order clerk	11,163	8000-18,000	10%	42%
Order picker	10,487	7500-19,500	9%	35%
Packer	10,706	7280-19,500	n.a.	n.a.
Driver	11,687	8000-24,000	9%	26%
Expediter	10,500	6500-25,200	10%	20%
General clerical	9212	4750-16,000	6%	35%
Engineer	23,712	15,000-30,000	6%	75%
Mechanic	15,469	10,000-21,600	13%	23%

*Bonus may be in form of profit sharing.

Sales compensation...

	Salary	Incentive/ commission	Total compensation	Average years of experience
Most-experienced outside salesman	$36,800 $18,650 —	— $15,450 $49,515	$36,800 $34,100 $49,515	14.8 18.6 16.1
Least-experienced outside salesman	$17,132 $13,920 —	— $4085 $20,241	$17,132 $18,005 $20,241	1.4 2.6 2.8
Most-experienced inside salesman*	$19,132 $18,080 —	— $3660 —	$19,132 $21,740 —	10.5 11.9 —
Least-experienced inside salesman*	$11,200 $11,670 —	— $1690 —	$11,200 $13,360 —	2.1 2.0 —

*Includes counter salesmen.

Findings...

Profit sharing: 65% of respondents have it. Average age of plan is 13 years. 72.5% began plan six or more years ago; 35%, 16 or more years ago.

Average compensation: $617,000, with range of $85,000 to $3.3 million.

1980 compensation: Rose an average of 11.9%, with a range of 0% to 30%. Only 16% of respondents had rises of 7% or less; 57% were up 8% to 12%.

Fringe benefits: Were at 17% of total compensation in 1980, with range of 3% to 32%. The average increase over 1979 costs was 7.7%, with a range of 0% to 22%.

Projected 1981 fringe benefit increase: 7.9%; range, 0% to 30%.

1981 compensation: Average increase forecasted was 11.1%, with a range of 0% to 30%. Expected fringe-benefit hike is 7.9%, with a range of 0-28%.

Salesmen: Average number of outside, 6.7; average inside, 6.1. Range, 2 to 29 outside, 1 to 35 inside.

spondents are giving it a try, indicating that this method is due for a long run.

The tricky question here, of course, is, who gets the commission and is it shared? The answer appears clear: Yes, sharing is fair. The majority of respondents who give inside sales personnel incentive compensation work with splits—nearly 60% mandate shares with other insiders and more than 40% with outsiders.

Despite moves toward incentive compensation for inside personnel, the gap between the money earned by insiders and by outsiders remains large indeed (see salary tables, page 40).

For raises, most respondents seem to pick a number between 8% and 12% and hope that will keep employees happy. With an average compensation bill of $617,000 (a range of $85,000 to $3.3 million), the average 1980 increase was 11.9%, with a range of 0% to 30%.

Rising costs

The number of respondents able to get by with increases of 7% or less was small, 16%. The majority, 57%, fell in the 8-12% category, while 27% were in the 12%-and-up category, although more likely because of new hirings than through rampant violations of President Carter's wage guidelines.

Those figures roughly parallel data put together by the Conference Board, the business study group, on labor costs in manufacturing during 1980.

The Conference Board, in predictions made by its Labor Outlook Panel, said wage and benefit gains this year would likely reach a median of 9.5%, 0.5% above actual levels last year, despite greatly increased unemployment.

The main problem remains inflation. The panel forecast an overall 13% increase in *Consumer Price Index* levels this year, compared to 11.5% last year. The estimate of manufacturing wage-and-benefits gain ran 9% to 12.5%.

As noted, the Conference Board's tally of compensation costs includes fringe benefits, an area of compensation that is being eyed by distributors.

Consultant George Webster notes that 41% of compensation costs of all nonmanufacturing firms in the U.S., as of 1977, were tied to fringe benefits.

If the figure seems high, Webster notes, it is because it includes 11% for "time not worked." That term may seem a contradiction: Who's going to pay workers for not working?

That's not the case, observes Webster, since "paid non-work" includes vacations, sick days, personal leave and time off for funerals and jury duty.

"This item is not normally in the employee benefit package," Webster says. "Though you may not think of it this way, paying someone for not working, is a 'fringe benefit.' "

Even without that "fringe benefit," Webster's tally of benefit costs for nonmanufacturing concerns comes to 30%. (As he points out, comparable figures are not available for wholesaling and distribution as an industry.)

Yet, judging by the figures received from our respondents, distributors' true benefits costs—and thus their overall expense for compensation—are either far less than the norm or often misstated.

For example, the average respondent said 17% of 1980 costs are the result of fringe benefits. The range for that figure is wide, moving from a low of 3% to a high of 32%.

Even assuming that true fringe-benefit costs are indeed lower in this sampling of distributors, costs are rising. This year's fringes cost an average of 7.7% more than in 1979, with a range of 0% to 22%.

That trend will continue, according to Webster in *Controlling Payroll Costs in Distribution*, a publication of the National Assn. of Wholesaler-Distributors. (Copies, at $26 each, are available by letterhead request from NAW at 1725 K St., N.W., Washington, D.C. 20006.)

Webster breaks fringe benefits into three categories: *legally required*, such as Social Security, unemployment compensation, workmen's compensation; *necessary but not mandated*, such as pensions, medical and life insurance, vacations, sick days; *voluntary*, such as profit sharing, bonuses and other nonwage payments.

As Webster points out, only the first category is mandatory. The other two are what constitute a desirable benefits package designed to keep workers loyal and satisfied.

But the cost of both the mandated and voluntary fringe benefits is rising fast.

"If you don't already know what your benefits cost you on a percent of payroll, have your accountant work it up for you," Webster advises. "Analyze it carefully and set a limit."

Respondents to this survey are already eyeing 1981 compensation costs.

The near-unanimous verdict: Costs are going up again. The average increase expected is 11.1%, with a range of 0% to 30%. The average figure would undoubtedly be lower but for the relatively few companies that forecast increases of 20% and above, again more likely as a result of expansion than greatly increased salaries.

Also for 1981, respondents see an average hike of 7.9% in fringe benefit expenses, with a range of 0% to 28%.

Bonus incentives

Bonuses continue to play an important part in distributor compensation, according to the respondents' figures.

Of course, distribution is a performance-dependent industry. At one extreme, although not undesirably so, is a poll respondent, a CEO, who bases 67% of his compensation on commission and 13% on bonus.

"I believe in personal incentive," he commented, "and that holds true all the way throughout this company. That goes for me, my sons (two top company executives with 87% of compensation from commissions and the balance from bonuses) and anyone else here. The best example is set at the top."

That attitude appears to be shared by many of the respondents to the survey. CEO's who are also company owners had an average salary of $58,412 (with a range of $15,000 to $100,000). Nearly 70% (see table on page 40) also receive a bonus

as part of their compensations, with the average bonus 29%.

Nonowner CEO's trailed in amount of average salaries and bonuses, $42,366 and 25%, but 80% of respondents reported receiving them. (The salary range here was $18,000 to $70,000.)

Other top distributor management also tend to receive bonuses to supplement their salaries. Some 77% of executive vice presidents reported receiving bonuses, for an average of 31% of salary. The average salary here was $31,257, with a range of $10,500 to $55,200.

Obviously, bonuses—and to a lesser extent commissions and profit sharing—are needed to bring the low-end salaries listed for those three positions up to top-management levels.

Interestingly, those performance cash awards may be more widespread than in other industry sectors.

For example, Chicago-based Dartnell Institute of Financial Research publishes a biennial survey of executive compensation. In the 1980 edition, which uses 1979 data, Dartnell researchers used a sample base of 300 companies across nearly 40 industry types.

Only 32% of Dartnell respondents had profit sharing for one or more of the three management levels, top, middle and supervisory. Some 60% of responding companies had bonus plans for management.

ID's respondents reported a 65% rate of profit sharing, with an average of 75% of respondents in the top three management positions receiving bonuses.

It should be emphasized the ***ID***'s sample group does not necessarily represent the entire universe of industrial distribution. Put more plainly, up to 65% of all distributorships do not necessarily participate in profit sharing simply because that figure was reported by our respondents.

Even so, survey findings tend to indicate that extra cash compensation plays an important role in distribution. Bonuses, for example, are reported for most line positions in a typical distributorship (see table on page 40).

Dartnell's breakdown of average earnings for top management in companies with less than $5 million in sales indicates that distributor executives are keeping pace with their counterparts in other industries.

No comparable position exists in the Dartnell survey for CEO's who are also owners. Other figures are: CEO, $44,000; executive vice president, $37,000; vice president-marketing, $36,000; corporate secretary, $26,000.

The sales route

The fast track to the big money in distribution—as well as top management slots—has traditionally been outside sales. That hasn't changed, the survey response demonstrates.

Average figures for each of the three main sales compensation types, for the most experienced salesman in respondent companies, are:

Salary only—Average, $36,800; range, $24,000 (nine years' experience) to $60,000 (25 years' experience).

Salary-plus—Average salary, $18,650; range, $6,000 to $36,000. Incentive-commission average, $15,450; range, $1000 to $50,000. Total compensation average, $34,100.

Incentive-commission-only—Average, $49,515; range, $25,500 (12 years' experience) to $72,000 (35 years' experience).

Naturally, it takes a while to get to the big-bucks category of compensation in sales. Average figures in the three groupings for the least experienced of the respondents' salesmen are:

Salary-only—Average, $17,132; range, $12,000 (one year's experience) to $22,000 (one year's experience).

Salary-plus—Average salary, $13,920; range, $6000 to $25,000. Average incentive-commision, $4085; range, $1000 to $10,000. Total compensation average, $18,005.

Incentive-commision-only—Average, $20,241; range, $5000 (one year's experience) to $30,000 (two years' experience).□

In the field...

How do you keep control of compensation?

Obviously, a distributor can't always give the sort of raises employees would like, even once a year. But too little and too seldom, just as obviously, is a recipe for dissatisfaction and lowered productivity.

"I go to my friends, who are professional consultants, for guidance," said William Willoughby, president of Flagg Industrial Supply Co., New Haven, Conn. Willoughby and some associates took over the general line firm in April, inheriting an established compensation framework.

Trying consultants

"Professional advice in the compensation area, as in any other, is not always right, but it is more often right than not and it's well worth having," Willoughby commented.

Not all distributors have ready access to consultants. Nor would some want to pay the fees these experts charge, although it might be well-spent money for firms with real problems. Most companies settle for association advice.

"Our guidance is largely from association releases," said Herbert C. Conrad, vice president of Conrad & Son Supply Inc., Chicago. "That's helpful," he added, "but of course we couple these with our own judgment and experience and reviews."

The association material is helpful, although not always extensive, because it can aid against insularity. George W. Dunn, president of Seward & Co., Bloomington, Ind., uses the guidelines of the National Industrial Distibutors Assn. as a starting point. The main thing, he emphasized, is avoiding the use of gut feeling as the only yardstick.

"We also work with insurance people to help formulate our insurance programs. We ask for material from the National Assn. of Wholesaler-Distributors. We even work with the business school of Indiana University here in Bloomington. We do a great deal of reading. We are trying, frankly, to avoid making any compensation changes as the result of gut feeling," Dunn said.

Some distributors admit to talking with competitors outside their trade

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areas for compensation figures. Others are leery of the process, afraid of giving away any information that might hurt them.

J. G. Christopher Co., Jacksonville, Fla., has found the happy medium here—a periodic wage survey of noncompetitors in its immediate marketing area.

"I call five or six people in similar small businesses with similar job functions," said president Ronald G. Raymond. "This gives me a pretty good picture of what I should do," considering wage levels and techniques in the Jacksonville area.

Raymond warns against another aspect of gut-feeling compensation:

"We try very hard not to compensate an employee on the ground of what we would like him to be, but on the grounds of what he is. When a guy starts, you have no idea how he's going to perform. Some of the highest-paid employees have been my biggest disappointments. Conversely, some of the lowest paid have been my biggest delights."

Using wage parity

How does Raymond achieve a balance here? By working for "parity" in wages as quickly as possible. "Naturally, we can't chop down the salary of the high-paid guy without inviting him to depart. But we can find ways to increase the salary of a 'sleeper' who is really performing for us," he commented.

More often, distributor compensation is pegged to an average annual figure that keeps everyone moving along at about the same pace. Some may get 7% instead of the overall 8%, while fast-trackers are blessed with 9%. That may be convenient for bookkeeping, but is it the best system?

Seward & Co.'s Dunn is looking for what he describes as a "comprehensive, scientific, mathematical, equitable, judicious compensation policy." While he admits that such a system—particularly one developed in-house without the aid of expensive consultants—may not be easily found, Dunn vows to pursue it.

Basically, the Seward approach is to plan ahead. At the beginning of the fourth quarter, Dunn and the other executives start looking at the next fiscal year's budget for the amount possible for total compensation increases.

By the following May, after a review of financial performance in the previous fiscal year, they begin making final decisions on salaries, etc.

"Then we take a careful look at the individual performance of each employee during the year that has just gone by. Each gets an annual review by management and we have a system to quantify performance," Seward's president revealed.

Rating employees

"Several of us rate the employee numerically on various points, such as productivity, and the ones with the highest number of points will get larger raises than those with the lowest scores," Dunn revealed. "This is a fair, objective way to evaluate how much to give each person. And no matter how much one executive likes or dislikes an employee personally, the raise he gets is fair."

Seward's compensation criteria run to 23 items. Top performance earns 3 points; the bottom, 0. Add up the points and you know where your raise will fall.

A system like that can help a distributor chart productivity in something approaching objective terms, but how can productivity itself be enhanced outside of the annual raise?

Profit sharing is a traditional approach, one that some companies swear by.

Once a year, employees at Hayes Tools Inc., Dayton, Ohio, "get a piece of the pie," according to president Charles W. Hayes.

"Profit sharing should be designed to retain good employees," Hayes commented. "They know that if they produce, they get paid over and above salary. In a sense, they make their own annual salaries, in that they know that the more they produce, the more they are likely to walk off with in what amounts to a bonus."

Not everyone thinks that once a year is enough of a reminder to make profit sharing effective, however.

J. G. Christopher Co. has moved to monthly payments and watched productivity soar, according to president Raymond.

"We had 40 employees doing $1.7 million a year as recently as 1977," said Raymond. "We now have 21 employees doing $3.8 million in sales. We instituted profit sharing, for the first time, on a monthly basis in 1977 and it meant all the difference in the world. We've cut our turnover radically."

The monthly check, paid separate from the salary check, is the key, according to Raymond. "We don't dangle an illusion. We keep on letting the employee know about incentive."

That does bring in a problem, however. With annual profit-sharing payments, the company has time to decide on an equitable amount. On a monthly system, mistakes can be costly.

"Understate your costs and you're in trouble," Raymond revealed. "Everything in profit sharing is based on gross profit. We have to watch price increases and keep our people aware of them so they don't think they're getting short-changed."

Ted Jatho Jr., president of Mechanics Tool & Supply Co., Oakland, Calif., is looking at an incentive payment plan for inside sales personnel as a way to pep up productivity and improve his overall compensation program.

"To establish this for outside sales is easy, because it's self-evident," said Jatho, who is also president of the National Industrial Distributors Assn. "That's not the case with inside sales, however, although they can use incentives as well as outside salesmen."

It comes down to a question of how much and how soon, said Jatho. "There are numbers problems here. I want it to be good for them, but I also want it to be good for the company. I haven't come up with the formula yet, but I'm working on it."

Finally, it is surprising that many successful distributorships are only now working on fringe benefits that are standard in other industries, particularly big business and public employment. Ultimately, it will be to the benefit of distribution to be able to compete with large employers, even if the costs hurt somewhat, to attract good and loyal workers. A review of the fringes offered by companies cited in this article illustrates the point.

Making changes

Health insurance is popular, but the extent of coverage varies. Some pay insurance costs for employees and their families; some don't. One firm pays only 80%; a second gives full medical coverage and free dental insurance.

None of the companies had pension plans. One CEO commented: "We've had many good candidates turn us down when they found we didn't have a retirement program." He's putting one together now. Another firm discontinued an executive-level pension plan and now encourages participation in *Individual Retirement Act* (IRA) set-asides of taxable income as an alternative.□

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Industrial Distribution

October 1980

Hotline:
Distributors take conservative view of 'reindustrialization'

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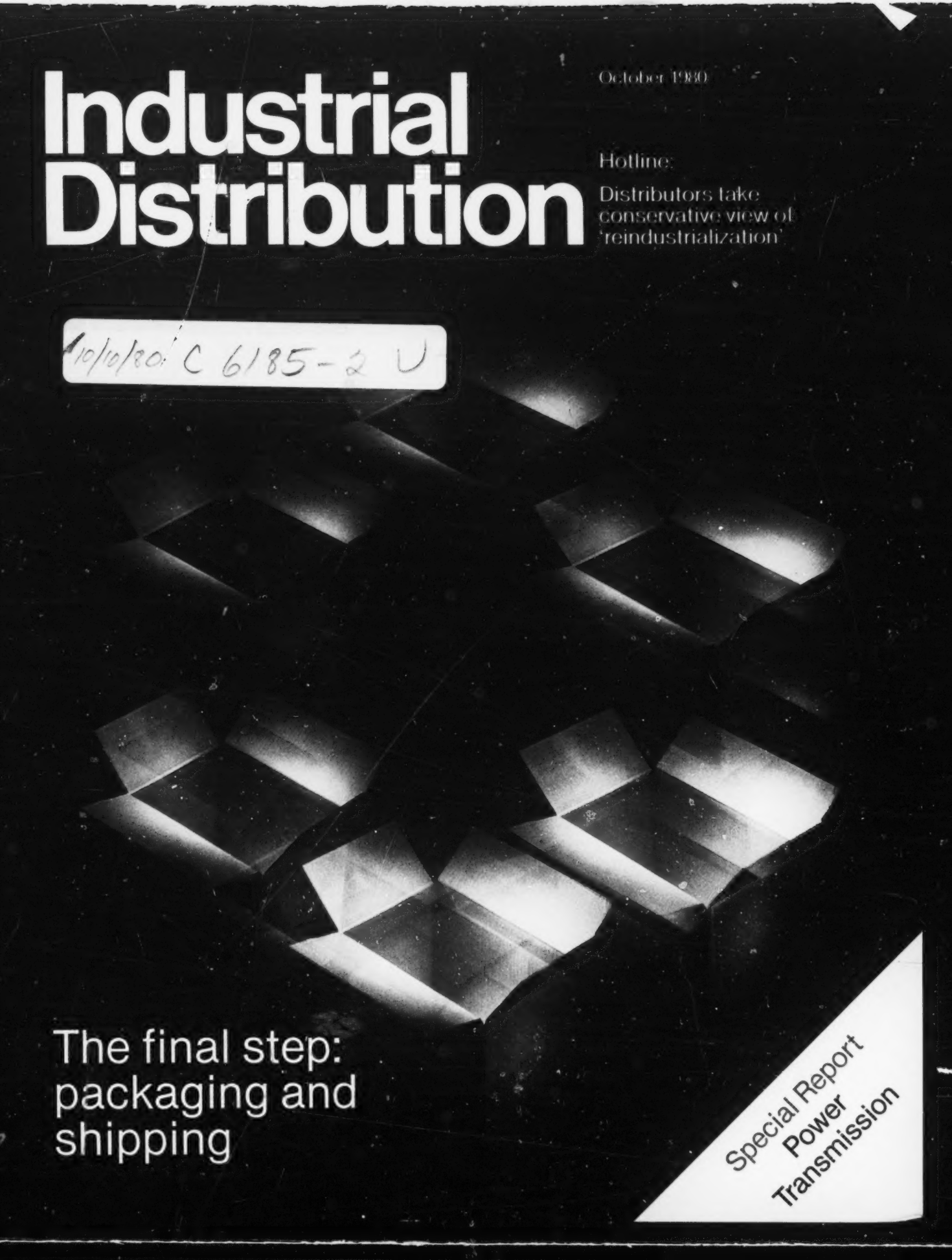

The final step: packaging and shipping

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Power Transmission

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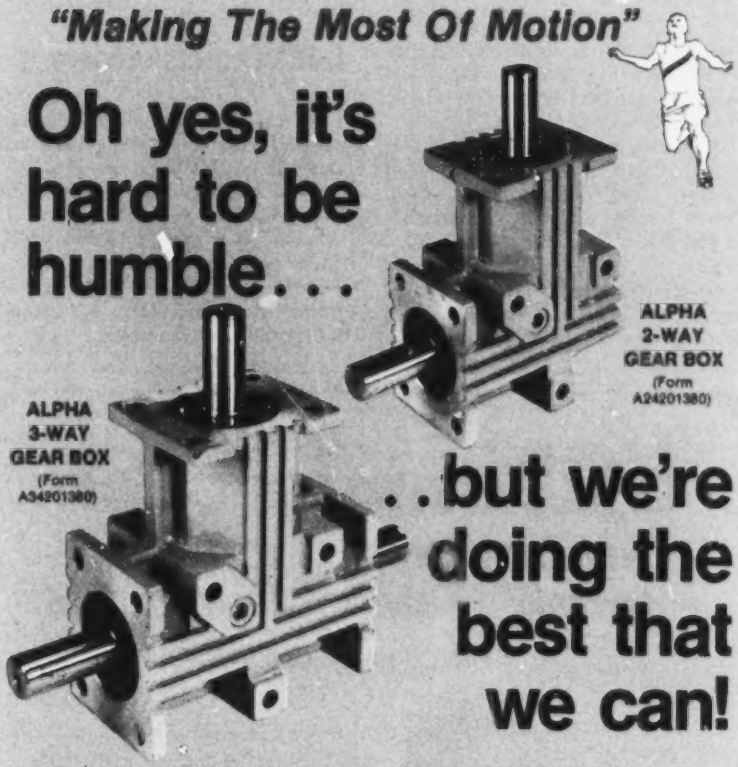

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Indicators...

Sales of industrial supplies and equipment remained unchanged nationally in July, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 132.2 put the seasonally adjusted, two-month moving average 1.2 points (0.9%) above the year-before level. The *NIDA-SIDA Inflation Index* for July stood at 132.9, up 0.9 points (0.7%) from June and 15.6 points (13.2%) over the year-before figure. Regional sales, comparing July to month-before and year-before levels, were: east, 142.8, up 1.7% and 7%; midwest, 116, down 1.5% and 8%; west, 164.1 up 2.8% and 8.7%; south, 138, up 1.9% and 10.9% ...The *ASMMA New Order Index* stood at 197.5 in July, up 1.9 points (1%) from June but down 63.8 points (24.5%) from July 1979. It was the first NOI's increase since October 1979...The *FRB Durable Manufactures Index* was at 127.5 in July, down 2.4 points. . .The *SIDA Monthly Sales Trend Report* had a 12% drop in June-to-July sales and a 6.2% rise in July 1979 to July 1980 sales. Sales in the first seven months of 1980 compared to the same period in 1979 had a 5.8% improvement. . .The National Welding Supply Assn.'s *Welding Supply Index* dropped 2.6% in July from 139.3 to 136.7. The reading is almost 12% above the year-before level. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors slipped 11.9 points (9.6%) in July to 112, 6.9 points (5.8%) below July 1979 ...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 1.6 points (0.7%) below June and 8.5 points (4.4%) above July 1979. . .The *Business Survey Report* of the National Assn. of Purchasing Management was optimistic in reviewing August figures. Although production declined again, the rate was considerably less than previous months. Purchasing managers remained cautious about orders for production materials, supplies and capital equipment. Some 66% of PA's reported that they are ordering capital equipment six months ahead or longer, down from 69% in July. □

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Cost of a supplier sales call is up —but by how much is the question

NEW YORK—Depending on which authoritative source is quoted, the average cost of a manufacturer's sales call in 1979 rose either 22%, to $71.90, or 42%, to a record-breaking $137.02.

Those conclusions, selected from reports on sales costs for last year by the Dartnell Institute of Business Research, Chicago, and McGraw-Hill Publications Co.'s Laboratory of Advertising Performance (LAP) in New York, illustrate one thing clearly—distributors should not take such figures at face value.

For one thing, neither survey charts the distributor's sales costs, although the LAP study does specifically break down the average cost of a sales call into three categories: direct marketing; indirect marketing through distributors, agents or other dealers, and a combination of both methods. The good news here, as with earlier LAP sales-call reports, is that sales-through-distributors remains the most cost efficient—50.4% less than direct and 13.3% less than in combination-marketing.

One key reason for the divergence in average-cost figures between the Dartnell and LAP studies is probably the sample base used. LAP's was culled from 787 responses to its questionnaire, which was sent to some 30 industrial-manufacturing types.

The respondents, chosen from McGraw-Hill's prospect and customer lists, represent "probably 90% of U.S. manufacturing in this area," according to the company's vice president for research, Dr. David Forsyth, who prepared the report.

To get a rounded picture of sales costs, Forsyth said, LAP includes companies with overseas marketing. Forsyth concedes that this inevitably will drive up overall cost figures. But, he told *ID*, "if it only included domestic costs it would be very misleading." Occasionally, he said, a respondent reported very high costs, as in the case of a manufacturer of gas turbines with a small sales team. One overseas call cost $3000, but the machine was ticketed at $150,000, he said.

That example, was the highest cost-per-call included in the survey, according to Forsyth, who noted that few were so expensive.

The LAP determined sales costs with this question: "What was your approximate cost per sales call in 1979?" A call was defined as "each time a salesperson makes a face-to-face presentation to one or more buyers or prospects." The breakdown of 1979 costs compared to 1977 costs are:

Direct—$170.80, up $61.26 (55.9%); *indirect* through distributors, dealers or agents—$113.54, up $24.71 (27.8%); *combination*—$128.67, up $34.54 (36.7%). Costs per call ranged between $195.80, up $67.11 (52.2%), for a company with fewer than 10 salesmen to $92.13 (no figures available for 1977) for a company with more than 100 salesmen.

Average costs soared between 1977 and 1979 because the components involved—transportation, lodging, travel and entertainment—were so heavily affected by inflation during that period, Forsyth said. That, he acknowledged, is to the benefit of distributors, with their local base and lower selling costs.

[continued on page 12]

Cost of the 'average' business letter?—$6

CHICAGO—The inexpensive business letter has gone the way of the nickel candy bar, it appears.

The Dartnell Institute of Business Research, Chicago-based study group that concerns itself with these matters, pegs the 1980 cost of an 'average' business letter at $6.07. That, says Dartnell, is the expense incurred in material, mailing and labor to produce a face-to-face dictated missive of approximately 175 words.

Increased salaries for dictator and secretary were tied to the figure. They added 48 cents to the 1979 costs, according to Dartnell.

Interested in cost-cutting in this area? Use dictating equipment. Without factoring in the cost of the machinery itself, the expense falls to $4.53, said Dartnell. □

STAFDA members' poll shows industrial sales rank second in volume

ELM GROVE, WIS.—Industrial customers are the second most important sales group for members of the Specialty Tools & Fasteners Assn., according to a recent STAFDA survey.

Because of the nature of their specialty, STAFDA distributors have traditionally been considered contractor-heavy in their customer mix. Indeed, according to the association's *1980 Distributor Profile Survey*, nearly 68% of respondents' volume is tied to that area.

For the first time, however, the 1980 survey asked members to break down their customer mix, bringing these figures to light: general contractors, 21.3%; industrial customers, 17.9%; electrical contractors, 14.8%; building contractors, 12.9%; plumbing and mechanical contractors, 12.5%; drywall contractors, 6.3%; metal fabricators, 5.4%; utilities, 2.8%; other, 6.1%.

"I was a little surprised by this myself," said executive director Morrie E. Halvorsen. "I would have thought industrial would rank about where plumbing is: 12% or so." Even so, he said, this member profile is probably the most accurate STAFDA has ever compiled. A record 44% of its 385 distributor-members responded to the poll, which covers sales and operations in 1979, a very good business year for members.

"It was an opportune time for this question. Some of these guys are having a tough time with their contractor business. Perhaps this will give them the push to pursue the industrial customer a little more," Halvorsen commented.

The survey is wideranging, covering such areas as sales, employee policies, unions, accounting methods, insurance, computer use, fringe benefits and compensation and volume mix.

"We're very pleased," said Halvorsen. "I think we're at the point where members see the benefit of giving us this information so they'll know where they stand." STAFDA will continue to run its profit performance survey on an annual basis, with the profile report on a biennial basis. "That's often enough to spot any real trends or changes," Halvorsen said.

Other survey highlights are:

Respondents by location: northeast, 10.7%; mid-Atlantic, 11.9%; southern, 8.9%; south-central, 10.7%; midwest, 19.1%; north-central, 12.5%; mountain, 4.2%; northwest, 5.4%; Pacific, 10.7%; Canada, 5.9%.

Number of suppliers: 84.3, average.

Volume mix: sales, 85.8%; service and repair, 6.4%; rental, 5.6%; contract drill

[continued on page 19]

Hajoca Corp. sales and earnings show decline

ARDMORE, PA.—Hajoca Corp.'s sales and earnings declined in the second quarter because of "much weaker" demand for the company's plumbing, heating and industrial supplies inventory.

The publicly held company had sales of $89.9 million in the first six months of 1979, down 3% ($2.4 million) from the same period in 1979. In the second quarter, however, sales dropped 8.5% ($4.2 million) from first-quarter 1979's total of $48.9 million. Net earnings dropped 7% in the first two quarters and 4% in the second quarter.

"Market demand for our products continues much weaker than in 1979 and we expect the company to report negative comparisons with the prior year for at least the next three fiscal quarters," said president and CEO A. M. Waddell.

Waddell said second-quarter earnings would have been worse if Hajoca had not benefited from the sale of assets of its Grimes Pipe & Supply subsidiary. The company purchased that operation, which has branches in Wyoming and Colorado, late in 1978, the year Hajoca changed its name from Gable Industries.

Hajoca withdrew from "this growing market area" because of operating problems that included resignations of key Grimes personnel, Waddell said in the company's midyear report. □

Fastener show scheduled for Columbus June 3-4

COLUMBUS, OHIO—The first annual National Industrial Fastener Show and Conference will be held here June 3-4, 1981.

The show, which is not connected with any distributor or manufacturers association, has space for a minimum of 150 exhibitors. Space is available for suppliers, importers and master distributors at the Ohio Center. Accommodations will be available at the Hyatt Regency Columbus.

Interested distributors should contact the National Industrial Fastener Show & Conference at 50 W. Broad St., Suite 1331, Columbus, Ohio 43215. □

Templeton, Kenley & Co. names Fromm as CEO

BROADVIEW, ILL.—H. Gordon Fromm has been named president and chief executive officer of Templeton, Kenley & Co.

Fromm, who had been corporate director of manpower planning at Bell & Howell Co., replaces Thomas Y. Bowen, who left the company. Fromm's other work experience includes positions with Marathon Electric Co., Sun Chemical Corp., International Latex Corp and Johnson & Johnson. □

STAFDA SURVEY...

[continued from page 7]

and saw, 1.1%; other, 1.1%.

Employee compensation (average ranges): outside salesmen, $17,298 to $32,310; inside salesmen $13,132 to $19,336; counter help, $11,633 to $15,333; warehouse supervisors, $13,175 to $17,471; clerical help, $9077 to $13,615; truck drivers, $9716 to $12,649.

Fringe benefits: hospital-surgical, 98.8% have it, and of those who do, 32.9% share costs with employees; long-term disability, 47% have, 25.3% share costs; life insurance, 70.7% have, 19.8% share costs; dental insurance, 24.7% have, 19.5% share costs; profit sharing, 51.8% have, 8.1% share costs; pension, 35.6% have, 10.3% share costs.

Product liability: 13.2% had claims filed against them in the prior 24 months; 6.8% reported difficulty in getting coverage; 37.2% has premium hikes; 20% saw decreases, and 49% stayed even.

Computers: 38.6% had in-house EDP service, using 44 brands and models.

Operations: Inventory valuation method—LIFO, 37%; FIFO, 42.5%; other, 20.5%; calendar-year basis—33.3% use it; business-interruption insurance—38.1% have it; 40.4% applied for a business loan in prior six months.

Federal contacts: 30.5% reported being visited by a Federal agency in the prior 24 months; 74% of the visits were from the IRS, 18% from OSHA, 8% from the Equal Employment Opportunity Commission, 4% from the Labor Dept., with one visit each (10% of the total) from the Government Services Administration, the FBI, the Food and Drugs Administration and the Small Business Administration.

Sales: over-the-counter, median of 15%; drop shipments, median of 3%; minimum-billing charge, 37% have it, with a median of $10; minimum-delivery charge, 16.6% have it, with a median of $25; cash discount, 58.9% use it, with the most popular 2%-10 days (32.3%).

Sales compensation: 11.8% use straight salary for outside salesmen; straight commission, 17.4%; salary plus commission, 19.2%; salary plus commission and bonus, 46%; other, 5.6%.

Direct-sales competition: 40.9% said it increased last year; 14.5% said it decreased; 44.6% said it held firm. □

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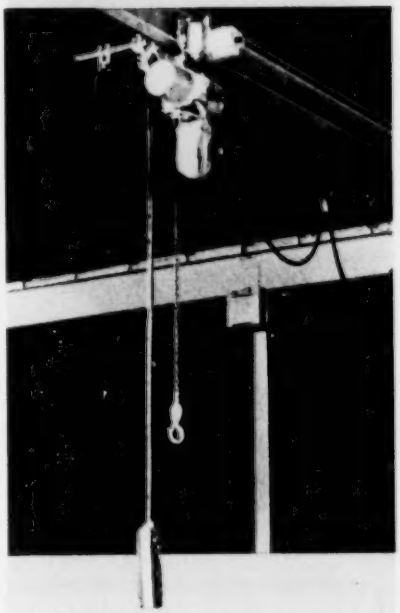

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July sales continue decline

Distributor sales stayed in the minus column for the third consecutive month in July, according to *Regional Report* respondents.

The exceptions to the rule were those regions that have tended to fare well during this downturn—east south central, west south central and Pacific—but even there some weakness was apparent.

Overall figures on the year-ago and year-to-date periods also indicate that distributor sales, on the average, are not keeping up with inflation.

Two signs that appeared during July offered some encouragement to those watching the pace of industrial activity.

First, new factory orders for durable goods rose a seasonally adjusted 8.4%, to $72.06 billion, following the drops of 1.3% in June and 7% in May.

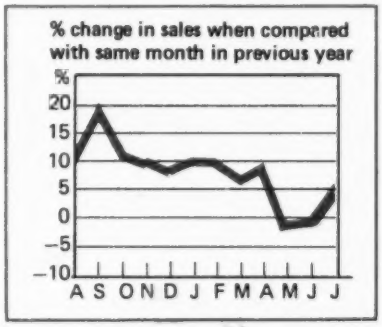
On top of that, the Commerce Dept.'s index of leading indicators rose a record 4.6%—1.4% above the previous high recorded in June 1975.

Despite those developments, however, Government economists cautioned that the recession, with its declines in manufacturing activity and employment, probably had not yet peaked.

The main reason: Business are feeding off of inventories that accumulated in the first half of the year when sales began to slump. □

RECEIVABLES*	July '80 Gen.	July '80 Spec.	July '79 Gen.	July '79 Spec.
New England	41.0	39.1	40.0	38.3
Middle Atlantic	39.6	42.2	38.1	41.7
South Atlantic	32.7	39.5	33.9	36.9
East North Central	41.7	40.5	39.3	38.0
East South Central	39.9	42.0	46.2	41.3
West North Central	43.0	41.8	43.9	46.1
West South Central	37.2	39.0	36.3	36.5
Mountain	46.3	36.8	45.7	35.6
Pacific	38.4	41.8	41.2	41.8
National	40.0	40.3	40.5	39.6

*Average days outstanding



Despite the June-to-July drop, sales volume was still 5% above the level of July 1979...

SALES BY REGIONS (% change)	July '80 vs. June '80 Gen.	Spec.	Both	July '80 vs. July '79 Gen.	Spec.	Both	7 mos. '80 vs. 7 mos.'79 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Me.	−2	−1	−2	14	9	12	12	16	13
Connecticut	−4	7	2	16	10	13	19	20	20
Massachusetts	4	−8	−1	3	9	6	10	12	11
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−5	−6	−5	9	12	10	10	10	10
New York Metropolitan Area	−13	−2	−6	−2	19	11	12	11	11
Upstate New York	10	−4	3	33	16	25	17	15	16
Pennsylvania	−13	−24	−18	−3	−2	−3	1	11	5
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−5	1	−3	3	13	7	5	15	9
Georgia-Florida	−14	−5	−10	4	12	8	15	18	17
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−4	1	−2	−7	4	−2	−3	6	
Indiana	−10	11	1	1	12	7	1	9	5
Wisconsin	8	−8	2	9	15	11	10	9	10
Chicago	−1	11	6	−12	−1	−6	−5	8	2
Michigan	−16	−8	−13	−25	−7	−19	−13	1	−8
Ohio	−3	1	−2	−7	−1	−5	−6	2	−3
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	11	−5	4	−8	1	−5	1	12	6
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	−19	−10	−15	−24	−6	−15	1	4	3
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	4	4	4	14	17	16	11	19	−16
Texas	−11	8	3	12	11	11	11	−2	1
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−6	−14	−12	−15	1	−3	11	12	12
PACIFIC: Calif., Ore., Wash.	6	6	6	15	8	11	9	7	8
L.A.-San Diego	13	4	8	32	7	18	12	10	11
Oregon-Washington	−1	7	3	−2	8	3	5	3	4
U.S. TOTALS	−3	−1	−2	3	7	5	6	10	8